Operational Excellence at Woodforest National Bank

A Case Study

How ACI Automated Dispute Manager is helping Woodforest continue to grow

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Preface

In 2012 ACI announced a partnership with Lean Industries to deliver a market leading disputes management solution to our customer base. This offering, Automated Dispute Manager, was installed by Woodforest National Bank prior to the partnership and is referred to as Lean's AdjustmentHub.

Introduction

For over thirty years, Woodforest National Bank, based in The Woodlands (Houston), Texas, has been building its brand in the U.S. banking market on a differentiated strategy that focuses on fostering relationships with consumers. The company's motto is "Banking your way… every day and night" and in 2007, the company was voted as the bank with the highest customer satisfaction in the Southwest region of the United States by JD Power & Associates. The bank offers a personal touch to banking by providing "around-the-clock" banking services.

Perhaps the most successful attribute of the bank's strategy is its distribution model. Whereas many other banks will guide consumers to an ATM or a website to conduct transactions, Woodforest has made relationship banking a priority by positioning its branches within large retail and supermarket outlets located across 17 states in the Midwest, Southwest, Southeast, and Mid-Atlantic regions of the United States.

Woodforest competes with other financial institutions in a highly volatile and competitive middle-market segment where bank asset values typically range between $1 and $20 billion. In the last fifteen years, Woodforest has experienced tremendous growth and now has over 750 branches (up from 151 in 2004). Rapid growth such as this can only come from a focused strategy that is well-executed at all levels of the organization – including the bank's operations.

The success story at Woodforest is not just about significant market penetration and growth, however. The most compelling aspect of the story is that the bank was able to grow without sacrificing its brand name or principle of exemplary customer service. In fact, market growth could not be achieved without maintaining a focus on its relationships with consumers. One of the key aspects that enabled Woodforest to maintain expansive growth is its focus on operational excellence.

Some companies that experience significant growth fail to adjust their operating methods, business systems, and supporting technology to accommodate the market expansion. These failures can quickly capsize high growth companies because their operations are not suited for substantial volumes; in short, they cannot scale to meet the new needs of the business.

Rapid growth can cause production issues and service disruptions, which, in turn, create customer satisfaction disasters. Operational procedures and business systems employed to support a fledgling operation are not designed with scale in mind and quickly fracture with the burden of high growth. In effect, the company struggles as accelerated market growth introduces strains on business systems and

practices and amplifies weaknesses or issues of scale. The end result of the rapid growth for the customers is unfulfilled expectations and distrust – both scenarios Woodforest appears to have successfully avoided.

How did Woodforest sustain its impressive growth? How was the company able to deliver on its commitments to its customers without succumbing to the pressures and strains of its expanding business? How did the company manage to achieve and maintain operational excellence?

The purpose of this study is to answer these questions and to illustrate how innovative banks can be successful – without sacrificing on quality. It is also to tell the story of how one company adapted its operating model through critical, timely technology investments to meet the challenges posed by rapid market growth.

Problem

One of the most sensitive and emotional times of the bank-consumer relationship occurs when an exception item has been identified or a dispute has been initiated. In either case, a payment has been processed incorrectly, in error, or as a result of fraud. If there's no money or credit available to a customer due to an exception item, rents and mortgages can't be paid, groceries can't be purchased, travel becomes challenging, and household products can't be obtained. Woodforest aims not to lose a single customer to a poor experience resulting from an exception item.

With payment volumes on the rise and, in particular, as a result of Woodforest's branch growth, volumes of payment exception items have also grown at the bank. Managing exception items is primarily an operational function – a back office function. Throughout the late 1990s and early 2000s, Woodforest developed some back office business software applications to help it achieve a high standard of customer service and operational excellence, particularly with exception and dispute handling. However, during the periods of rapid growth, the proprietary back office exception handling system that they developed and maintained began to show signs of weakness. These kinds of "stress fractures" were felt within the company's operating model where staffing levels were forecasted to rise significantly in order to keep pace with rising payments volume – and the resulting rise in volume of exception items.

The challenge at Woodforest was not one of inefficiency or operational control. In fact, the company's exception handling operation had long been functioning as a highly efficient and productive one. However, as soon as the volumes began to increase rapidly, the lack of features, integration, and certain technical capabilities of the application began to become significant challenges. For example, the existing exception item processing system lacked a formalized imaging management function. Operators had to manage paper-based artifacts with each case, which required significant manual intervention. Additionally, the system did not have direct interfaces into systems like the Visa Resolve Online (VROL) and MasterCom (MCOM) retrieval request and fulfillment systems. The resulting situation from these deficiencies was further exacerbated by the challenge of increasing volume was, as

one bank executive described it, the "swivel chair" effect. Operators were spending valuable time and energy toggling between applications and physically moving between separate workstations in order to take actions on each case. If the company were to continue using its existing back office business systems, policies and procedures, the only way to counteract these challenges would have been to increase staffing levels – and this was not a desirable option for bank management.

In addition to the problem of achieving an optimal labor pool for exception item handling was that of staff turnover. The challenge of acquiring a resource with adequate customer service and computer skills combined with the training time required to manage a fairly complex operational issue can be demanding. At one point, the bank forecasted that they would need to hire as many as seven new resources on an annual basis just to keep pace with the forecasted rise in exception volumes. If Woodforest were to increase its labor pool, they would inevitably see growth in staff turnover based purely on staff counts. This, in turn, would require that the bank increase its capacity to train and educate new staff. Thus, it was not merely a problem of having to expand staff counts, but rather the overhead costs associated with making each new exception handling operator a productive resource, and the costs associated with filling vacancies.

Another challenge that Woodforest faced with this situation was that building and maintaining proprietary software applications is an expensive, long-term investment. If Woodforest were to continue investing in organic and proprietary technology to create a new exception item processing system to accommodate the requirements presented with significant scale, the bank would have to staff technology resources to be able to develop, enhance and maintain the system. Thus, it was not merely a matter of expanding the bank's labor pool of exception item processing staff, but also a matter of expanding highly-skilled technology resources to support the system.

Goals & Aims

Branch expansion continued for Woodforest and the time came to take action to implement several strategies to ensure the bank's operations could support it. They decided to explore different options to replace their existing exception item processing system. Some of the options considered included:

- Re-engineering their proprietary exception item processing solution
- Purchasing a software development kit from a third-party software vendor that would allow them to construct a workflow management system that could be configured to meet their unique needs
- Investing in a standardized workflow management software product from a third-party software vendor that would provide long term product investment as well as support and maintenance

Other options, such as outsourcing to a third-party processor, were not considered as they were incompatible with the bank's strategy of controlling and managing their own payment systems and infrastructures. Outsourcing would decentralize the back office operation and require fundamental changes to the way the bank managed retail payments processing. In effect, outsourcing this function

would diminish the ability to maintain operational excellence and exceptional customer service – particularly with the highly emotional experiences that disputed transactions can represent for consumers.

Some of the goals Woodforest had as part of their due diligence process was to identify a software product that could provide them with the following abilities:

- Limit the burden on internal resources of developing and maintaining technology
- Manage significant growth in the volumes of payment exceptions and disputed transactions due to the growth of the bank
- Match the existing capabilities – at minimum – of their proprietary exception item processing system
- Provide additional automation capabilities and the "electronification" of paper-based processes
- Integrate with other customer service, core banking, and payment applications through a single sign-on user authentication methodology (which would diminish the "swivel chair" effect)
- Integrate with other third-party applications to automate the documentation and imaging requirements for the retrieval request/fulfillment process (namely VROL, MCOM)
- Enable flexibility to create new workflows to address shifts in the market that were driving up volumes of certain types of exception items

Another primary goal Woodforest had was to ensure that any new solution would centralize the exception item processing intelligence into the software itself rather than building up the knowledge base within their labor pool. As was previously described, the complexities of exception item processing can require that operators have a sufficient, if not extensive, level of knowledge of retail payments processing, industry operating policies, and governmental regulations. In effect, a long-term goal was to diminish the level of training time required for new operators – especially as this is a job function that experiences regular turnover. The new system had to be both "smart" and easy-to-use.

Perhaps the goal that superseded any of the bank's other goals was that any new system would not negatively impact Woodforest's ability to deliver a superior customer service experience.

These goals are not altogether uncommon. However, Woodforest is one of a minority of mid-sized US banks who is determined to obtain banking and payment systems that it can then easily modify as it requires to extend its competitive advantages. The compelling part of their story is that they are a smaller player in a big, complex market that discovered a formula for success – and it realized that the formula required adjustments based on the level of success they were seeing. Many companies fail to calibrate their strategies in anticipation of change and, instead, react. However, at Woodforest, the management team realized that their current growth trajectory would overheat their high-performing operation and risk their name-brand recognition in the market – which is the center pin of their success.

Selecting a solution

Outsourcing and internal software development were options eliminated as Woodforest continued to shape its future strategy for exception item processing. The next round of due diligence pitted two third-party software models against each other. The bank engaged with one US-based software vendor that offered a solution that was more of a toolkit. In effect, their offering provided a technology platform upon which Woodforest could design the solution it required. The software vendor would provide any development and customization according to Woodforest's specifications. As a result, the bank would have a new solution that met their needs, but it would be coming from a technology vendor that specialized in development services – and not in exception item processing, the root of the entire problem. The vendor did not necessarily have the expertise or industry knowledge to truly understand the dimensions and facets of the problem that Woodforest faced.

The second vendor Woodforest reviewed was Lean Industries, a company based in Toronto, Ontario. Lean Industries understood the goals and requirements of Woodforest and offered a fully functional, almost "off-the-shelf" software product that required minimal development to provide a baseline product that Woodforest could work with. The business case was compelling – and the companies executed a licensing agreement with implementation beginning shortly thereafter.

One of the key advantages of going with the solution from Lean was that they were not only able to deliver standard product functionality within the product, they were able to create standard interfaces to other critical payment systems – including transaction switches and data warehouses. In the end, Lean's product was a better fit for Woodforest and Lean possessed a better understanding of the exception item process than the other technology vendor.

Results

Lean Industries' system has been in production at Woodforest National Bank now for over three years. In that time, the company has been able to achieve virtually every goal that was originally established. The bank successfully replaced its existing system with a platform that provides additional functionality – and flexibility. Not only has Woodforest been able to maintain an optimal staffing model where it has not been forced to increase its labor pool to support exception items, it has been able to "cast a wider net" over exception items. Items that were once simply written off or ignored entirely by the bank after the bank had credited the customer can now be worked actively through automated procedures or addressed by operators who have a productive and efficient tool in an effort to minimize financial impact.

Collaboration between Woodforest and Lean Industries continues as an enhancement that provides single sign-on capabilities is being delivered at the time of this publication. Thus, the "swivel chair" effect will be diminished significantly – if not eliminated altogether. Single sign-on is not a simple undertaking given the fact that issues pertaining to user authentication involve multiple software

systems, varied security protocols, and different authentication requirements. However, the value to Woodforest is that their exception item processing operators will become even more productive.

Summary

Woodforest had three primary tenets to its operational enhancement program: quality, productivity, and efficiency:

- First, quality was simply something that could not be sacrificed. The bank had been building its reputation on a very engaging and available customer service experience. If the bank was going to continue to succeed based upon this principle, quality had to continue to be the accelerator of the success engine.
- The second goal the bank had was that resources needed to become increasingly productive in working more exception items without spending more time to do so.
- Finally, the operation needed to continue to be an efficient one where costs would not rise markedly (if at all). This meant that the bank would continue to seek out ways to automate different parts of the process – even things like system access (through single sign-on).

Lean Industries proved itself as an industry expert and a collaborative partner. The solution installed at Woodforest – and now available from ACI Worldwide as ACI Automated Dispute Manager – is one of the principal cornerstones of operational excellence at one shining star of the world's largest retail payments and banking market: Woodforest National Bank.

About the authors

Andrew Paur currently serves as the Executive Vice President & Corporate Operations Officer for Woodforest National Bank, a bank with nearly 800 branches located throughout seventeen states in the U.S.

Prior to joining Woodforest, Mr. Paur's previous roles have included roles with the PULSE Network and Discover Financial Services, where he simultaneously held positions as Assistant General Counsel and Senior Counsel, respectively. Prior to joining PULSE, Mr. Paur was an attorney in the Banking and Finance Section of Winstead, Sechrest & Minick (now known as Winstead), a large Dallas, Texas-based law firm. Mr. Paur earned his Doctor of Jurisprudence (JD) at South Texas College of Law in Houston, Texas where he earned academic admission to the *South Texas Law Review* and was a member of its Board of Editors. Mr. Paur also earned a Master's of Business Administration (MBA) degree from the Cameron School of Business at the University of St. Thomas (Houston, Texas) as well as a Bachelor of Arts degree from Texas A&M University (College Station, Texas).

Mr. Paur is recognized by many as an expert in many aspects of retail banking including the legal, business, and technical aspects of retail payments. Mr. Paur is a member of the State Bar of Texas, a member of the Board of Directors of the Texas Association of Bank Counsel, and a member of the Data Privacy & Security Committee of the Business Law Section of the State Bar of Texas.

Jim Schlegel leads all marketing and sales activities for software development firm Lean Software Services, Inc. (Lean Industries) – developer of the AdjustmentHub™ product.

Prior to joining Lean Industries, Mr. Schlegel held positions in product management and marketing for payments software vendor ACI Worldwide where he oversaw marketing and product development activities for several of the company's back office payments products. Prior to joining, ACI Worldwide, he held various positions for First Data Corporation, one of the world's largest payments processors, and US EFT network NYCE Payments Network, LLC (an FIS company). Mr. Schlegel earned a Master's of Business Administration (MBA) from Bellevue University in Bellevue, Nebraska. He also earned a Bachelor of Science degree in business administration and a Bachelor of Arts degree in history, both from Buffalo State College (Buffalo, New York).