

Leveraging Six Sigma Methodologies and Metrics at DTCC

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Introduction

Thank you very much for this wonderful honor! It means a great deal to me personally and to all the people at The Depository Trust & Clearing Corporation or DTCC. It is their hard work and dedication over the past five years that are behind this award.

I want to thank David Silverstein [who will introduce Jill and present her with the award] for that terrific introduction and to thank the Breakthrough Management Group for sponsoring this award. This kind of recognition reinforces at the CEO level the importance of personal involvement and accountability for driving quality in an organization.

I also want to thank the Global Six Sigma judges for the time they put into evaluating the nominations and, particularly, for their recognition of DTCC. In addition, I'd like to salute the WCBF organization for sponsoring this conference and providing a forum where so many professionals across industries can share experience and learn even more about best practices in Six Sigma.

I've been asked to brief you on how DTCC is leveraging Six Sigma methodologies and metrics to create greater efficiency, reduce costs and achieve world-class customer satisfaction scores.

Who we are

For those of you who aren't familiar with The Depository Trust & Clearing Corporation, let me begin by saying that DTCC is the world's largest post-trade infrastructure organization. You might think of us as the central nervous system supporting the functioning of capital markets in the United States. Last year, we settled in excess of \$1.4 quadrillion in securities transactions for the financial services industry.

Now for those of you who are into metrics and measurement, you may be asking yourselves, "what's a quadrillion?" it's a one followed by 15 zeroes. Or let me put it another way ... if you dig out a one-mile stretch of beach, 100 feet wide and one foot deep — and pile up all that sand — you'll have close to one quadrillion grains.

As David told you, our subsidiaries provide clearance, settlement and information services for virtually all trading in equities, corporate and municipal bonds, government and mortgage-backed securities and over-the-counter derivatives. We're also a leading processor of mutual funds and insurance transactions. We facilitate the widespread choice investors have in the U.S. by linking funds and carriers with their distributors.

DTCC also manages the largest central securities depository in the world, providing physical and electronic custody and asset servicing for more than 2.6 million securities issues from the U.S. and 100 other countries and territories, valued at \$31 trillion.

Our customers include financial firms or trading parties in the U.S. and, increasingly, overseas. We also serve the marketplaces, including the New York Stock Exchange, Nasdaq, the American Stock Exchange, the region-

al stock exchanges in the U.S. and the alternative electronic trading networks, also known as ECNs.

To put our role into perspective, we essentially turn over or clear and settle the equivalent of the US GDP of \$12.4 trillion every three days. Ironically, as the Financial Times has pointed out, not many people know about us, which is proof that we're doing such a good job.

But, within the financial services industry, DTCC has a well-earned reputation for efficiency, reliability, low costs and strong risk management. For those of you coming from overseas, we are often held up as a model for the efforts under way to unify the financial market infrastructure in Europe.

When I came on board early in 1999, DTCC in its present form did not actually exist. My mandate was to spearhead the formation of DTCC as a new holding company that would consolidate several industry-owned clearing and settlement organizations under one umbrella.

Like most consolidation initiatives, our goal was to bring greater efficiency, synergies, and cost savings to our customers.

Transforming an organization

In becoming chairman and CEO of DTCC, the most significant challenge I faced was driving transformational change throughout our organization. DTCC's predecessor companies had built a reputation for reliability, certainty and responsiveness -- and as premier providers of quality service, much like your local phone company or electric company during the 1970s and '80s. Our challenge was to build upon this reputation and also become a competitive organization known as well for innovation, being quick to market and a thought leader in our industry.

Dealing with forces of change

In his best seller, "The World Is Flat," New York Times columnist Thomas Friedman looks at how changes, particularly globalization and technology advances, have leveled the playing field for people, companies and economies all over our 21st century world. His premise is that government and societies need to get up to speed and recognize that flattening is occurring so we all must adapt if we're going to survive.

I expect that all of you, as CEOs and senior executives, recognize this in one way or another because you, too, are facing some of the same changes and challenges. We're all dealing with accelerating trends, including changes in demographics, industry consolidation, technology innovation and the influence of globalization. And so are our customers.

In many industries, the greatest threat is letting down our guard; not paying attention to the fundamentals of our business and losing sight of our customers' requirements and their need to reduce risk and costs, both internal and external.

DTCC is similar to other successful organizations that are challenged by the current environment to constantly reinvent themselves. In truth, the corporate landscape is littered with organizations that fell by the wayside because they lulled themselves into a false sense of confidence.

Such companies didn't keep pace with trends in their industry. They overlooked innovations in technology that were reshaping business requirements. And, most importantly, they failed to ensure they had the capacity and commitment to anticipate and exceed the expectations of customers.

Today, the threats that face us are more complex, because they require us to be exceptionally good at everything we do -- and to continually strive to create added value.

Following the combining of our predecessor companies under the DTCC umbrella, the message to our senior management team and our employees was loud and clear. In this increasingly competitive financial services marketplace, even though we operate "at cost," which means we give profit back to our customers, we still

needed to retool the organization to operate more like a for-profit company — driven by metrics, distinguished by an ability to innovate, with bottom line accountability for results.

Back office processing is still a commodity business ... and we could not overlook the possibility of global competitors offering a better service at a better price.

At DTCC, we defined the burning platform that basically said “change, grow or die,” and we adopted an aggressive mission statement for our first five years: “by 2005, to be the provider of choice worldwide for investment servicing solutions through leadership, innovation and technology.”

Groundwork for Six Sigma

We began the work of transforming the culture in 2000. Our first task was to create an environment that embraced and valued metrics to drive change. To start the process and create a sense of urgency, we handed our newly consolidated management team their first challenge: to implement a 100-day plan, which consisted of a series of aggressive goals and deliverables for the newly formed DTCC.

Successful completion of this 100-day plan demonstrated to this new management team that ambitious, measurable goals could be achieved in a short timeframe.

Next, we assembled Employee Action teams, forerunners to our Six Sigma teams. Here again, the goal was to change the culture and encourage new ideas by providing upward feedback, metrics and timelines that assured results. Some 400 employees volunteered to serve on 33 teams, with each team tackling one or more issues to help make DTCC a stronger company and a better place to work. By year-end, teams had issued 150 recommendations, and 93% of them were implemented in whole or in part.

Both the 100-day plan and action team experiences gave employees and managers a new level of confidence ... that we could set the bar higher ... and with metrics and teamwork, we could succeed in moving the organization forward. Both of these early initiatives prepared the organization for the introduction of metrics into daily business operations and for every department and employee to set goals that tied into that year’s corporate-wide goals.

Six Sigma launches

By 2001, thanks to these early efforts, we were ready to launch a Six Sigma program, equipped with a new road map, with consistent, quantifiable yardsticks for gauging progress. The effort formalized our use of metrics, employee teamwork and shared learning in order to achieve DTCC’s customer-driven mission.

In a memo to employees describing the rollout of Six Sigma, I stressed that all of us would have to commit not only to a new way of working, but also to a new way of thinking about working. Six Sigma was not going to be the latest “flavor of the month” but from here on out would be the way we do business every day.

Senior support

We also emphasized the importance of senior level management backing and involvement. In his book, “The Power of Six Sigma,” Subir Chowdhury, who you heard earlier today, writes that, “If the top dogs don’t take time to learn about Six Sigma or support it, the project leaders don’t stand a chance. Any project without that kind of backing is a project that’s set up for failure.”

While top dog isn’t actually part of my job title and probably isn’t in any of yours either, I do agree strongly with Subir, and that’s why I took on the added role of Chief Quality Officer at DTCC early in our Six Sigma journey.

We also created a 17-member Quality Council to oversee the Six Sigma program, consisting of our senior executive team, including the general managers of all our businesses, to set objectives in tandem with the corporate mission and goals, and approve quality initiatives for Six Sigma implementation.

And to help us embed Six Sigma methodology and metrics deeply into the organization, we established a Quality Office, staffed with professionals trained in Six Sigma. This group coordinates and administers the Six Sigma Program, including training and project selection, on a day-to-day basis. Equally important, the Quality Office serves as our institutional advocate for quality and operational excellence.

Six Sigma: top down and bottom up.

We place great emphasis on training and educating our officers and managers because they wield significant influence. As Joseph Grenny, another respected Six Sigma speaker here with us, has said — the reason many organizations fail to leverage the full potential benefits of Six Sigma is because, quote, “leaders fail to appreciate the enormous cultural challenges its practices demand.”

I agree with Mr. Grenny. Leaders must be top-down advocates and role models. But success must also come from the bottom up, as our 2,500 employees move from learning Six Sigma practices into building a Six Sigma culture.

Our Black Belts and Green Belts represent the front line troops in building our quality infrastructure. In our first two years, the Black Belts oversaw cross-departmental quality projects yielded cost savings totaling \$5 million and another \$2 million in new revenue, as also helped improve our customer satisfaction scores.

Like the old saying, “success breeds success, employees saw the results, picked up on the enthusiasm of our early Black Belt-led teams, and wanted in on the action. In response, we created our Green Belt program in 2003. Green Belts undergo two months of training and, like Black Belts, must lead a Six Sigma project in order to receive certification. As of this month [June], we now have 15 Black Belts and 66 Green Belts at work throughout our organization.

On the reward and recognition front, we created the annual Chairman’s Quality Awards program in 2003 to recognize outstanding Six Sigma projects in the areas of process efficiencies, customer satisfaction, revenue enhancement/cost reduction, and cycle-time reduction. Each employee connected with winning projects receives a financial incentive and a beautiful blue crystal vase from Italy engraved with their name. We now also confer Quality Council Awards to recognize outstanding Green belt projects.

Six Sigma and DTCC goals

Today, you can see the influence of Six Sigma in our annual formulation of strategic corporate goals, which are framed in terms of quantifiable, quality-based initiatives. And in the area of staff development, last year we incorporated 18 Six Sigma skills and proficiencies, including voice-of-the-customer analysis and root-cause analysis, into our training curriculum. We’ve also added Six Sigma skills and experience to the criteria for employee promotions.

Results to date

OK. I’ve spent some time describing why and how we have used Six Sigma to transform our business and our culture. Now comes the question I know you’re asking yourself — what’s the payoff? What’s the ROI?

Well, as a result of Six Sigma, DTCC has chalked up annualized savings of more than \$17 million, including \$11 million in new revenue since 2001--and we expect these numbers to continue growing.

Equally important, DTCC’s customer satisfaction survey scores have been steadily climbing to the point where overall customer satisfaction results reached world-class levels of 90% and 89% for the last two years. DTCC also maintained world-class ratings for integrity and its commitment to quality achieving satisfaction levels of 90% and 85% respectively.

And we shouldn’t overlook the cumulative benefits of Six Sigma. Beyond quantitative returns, there are qualitative paybacks especially, when it comes to your brand image and reputation. As I noted earlier, when we introduced our Six Sigma program, DTCC had already adopted a very aggressive five-year mission to be the provider of choice worldwide for investment servicing solutions through leadership, innovation and technolo-

gy. Well, by 2005, 86% of our customers, in an independent survey, agreed that DTCC had achieved this image in the marketplace. We believe Six Sigma played a critical role in helping us build a global brand image...or, as the Financial Times refers to DTCC, “the gold standard” for clearance and settlement in the world.

The Tipping Point — Six Sigma at SBC

With Six Sigma, most companies start with pilot projects, and roll out the methodology gradually. And then, at some point along the way, after the innovators and the few have started the movement — our Black belts and Green belts — you reach what Malcolm Gladwell, another of today’s key speakers, refers to as “The Tipping Point.”

Malcolm describes that point as “the moment of critical mass ... the threshold ... the boiling point ... a place where the unexpected becomes expected ... where radical change is more than a possibility. It is — contrary to our expectations — a certainty.”

With DTCC, our tipping point is a new quality model we’re building at our Southern Business Center in Tampa or the SBC, as we call it.

Creating this operating center in Tampa was part of our response to the attacks on the World Trade Center on September 11, 2001. As David explained in his introduction, while the U.S. markets did not open that Tuesday, DTCC, located 10 blocks from the World Trade Center, still completed settlement of \$280 billion of obligations that day and \$1.8 trillion that week. From our Manhattan offices, and from an alternative location in the New York region, we completed settlement and thereby ensured the financial markets could reopen the following week.

But 9/11 underscored the absolute necessity for DTCC to further decentralize our operations with multiple IT and operating centers. Our IT centers are located at great distances, separate from our operating centers like SBC. Our SBC is equipped to carry out all core processes and functions of DTCC and its subsidiaries, but with a smaller staff than we have at headquarters.

The SBC presented a unique opportunity to build a model Six Sigma culture, a kind of incubator, from the ground up. As such, we could harness the site’s staffing resources to analyze the company’s core processes in a systematic way and carry out Six Sigma process-improvement projects there that could be replicated company-wide. We seeded the new center with 24 managing staff that were certified as black or green belts, and all local hires have been trained in the Six Sigma methodology.

Aggressive Six Sigma methodology and timetables enabled us to start settlement operations on December 6, 2004, [settle \$5 trillion daily must be robust] more than three weeks ahead of the original target date. Even more impressive, we were in full operation at this site by late February, 2005 -- three months ahead of schedule, and considerably under budget. This performance exceeded the expectations and requirements of employees, customers and regulators.

In effect, the SBC has been the “tipping point” for a fully embedded Six Sigma culture.

Six Sigma is equipping our people at every level with the right techniques and measurement tools that can yield cost savings, customer benefits and efficiencies not only in Tampa but also across multiple operating areas company-wide.

A new mission

As I mentioned, Six Sigma helped us achieve our first five-year corporate mission. Now, our Six Sigma network is at the heart of our mission for 2010.

We know that if we’re going to meet rising customer demands, if we are to stay relevant and competitive in this changing financial services environment, then continuing to apply Six Sigma practices and metrics throughout our organization is critical. Along those lines, we just got some nice encouragement that we’re

moving in the right direction.

Last week, an independent consulting firm told our Board of Directors that it rated DTCC as “exceptional” in its use and application of performance measures. The firm added that we were, quote, “world-class not only in formulating a wide range of indicators, but also in having the fortitude and discipline to constantly evaluate and renew them.”

Now, who wouldn't like to have your Board hear such nice things about you? But, trust me, we're not resting on our laurels. We know that we have many unique challenges ahead, as change spins ever faster — and with less predictability — in our industry.

Two months ago, who would have thought the New York Stock Exchange might merge with Euronext to form the world's first trans-Atlantic marketplace?

As it happens, we already had a team in place, exploring how we could serve the needs of customers and collaborate with others to support any clearing and settlement requirements that may result from possible trans-Atlantic mergers of stock exchanges. And, as we anticipate these requirements, you can bet that Six Sigma methodologies and metrics are in the thick of it.

Closing

Tonight, I've touched on the highlights of how we've introduced Six Sigma into the culture of DTCC. For those looking for more detail, we've printed [hold up booklet] this case study, which will be available after the dinner.

Of course, DTCC is only one of many organizations that are reaping such benefits from Six Sigma methodology and metrics. Our organizations, albeit some of us with results on a smaller scale because of our size, are riding the waves from other companies that embarked early on with corporate-wide Six Sigma initiatives. General Electric, Texas Instruments, Allied Signal, Citigroup, DuPont, J.P. MorganChase, 3M, Johnson & Johnson, and numerous others have stories to tell us.

Reviewing Six Sigma success in these and other companies, a rich mother lode of best practices if you will, is valuable to all of us. We're all on this journey together. And, that's why conferences like this one are so valuable.

It's here that we get that rare opportunity to pull over to the side of the road, to trade information and experience from so many of our colleagues, to take stock of where we are and what's worked — and to come away inspired all over again about where the Six Sigma road map can lead us.

So, again, on behalf of all my DTCC colleagues who have helped put us on that map, I'd like to once again thank the judges for recognizing us — and thank WCBF for sponsoring this important forum on Six Sigma best practices. You've given us fresh inspiration and renewed energy for our journey ... and we look forward to continuing this dialogue with you.

Thank you so much!