

Shared Service Centre – Status, Benefits and Trends for European FS Institutions

Key Facts

- Shared Service Centres (SSC) are commonly accepted in the financial services (FS) industry with almost 50 % of centres being established for more than three years.
- The vast majority of SSC realised significant cost savings of more than 30 % within a three years payback period.
- Innovative forms of shared services are emerging like “Centres of Expertise” centralising expert know-how for group-wide availability.
- Leading global FS institutions were able to achieve 70+ % sustainable cost savings with a 12-months payback period when deploying to low-cost countries – even for complex, high-value add finance/controlling processes, as long as the offshore transition and ongoing business-as-usual operations are tightly managed.
- Soft factors such as education and available qualified personnel with sound language skills are key criteria for choosing the optimal location.
- Eastern Europe is emerging as the major SSC location for European FS institutions, Asia for global FS players.
- The FS industry is lagging behind in setting up Shared Services for finance processes like financial accounting, controlling and financial analysis.
- Cultural differences and availability of qualified personnel are the most difficult challenges to overcome when implementing Shared Services.

Focus and framework of the study

The financial services (FS) industry is currently experiencing dramatic changes triggered by external and internal drivers. Traditional and commonly accepted business models of banks are being challenged to the extreme. Significant restructuring programs have been established for various financial institutes to improve efficiency and operational excellence. One established element of these initiatives is the establishment of SSCs.

Shared Service Centres (SSC) can be described as organisational units executing support processes for internal customers across several business units. But Shared Services are more than just the centralisation or consolidation of similar activities in a single location. By centralising activities, the advanced use of information technology enables geographical independence and the ability for parallel processing. This facilitates better collaboration with core business units, allowing for economies of scale, synergy realisations and improved quality of services.

In surveys and interviews BearingPoint asked 138 decision makers of banking and insurance companies across Europe to share their experience with the launch and the operation of SSCs.

Organisational Aspects of Shared Services

The survey results illustrate that SSC is commonly accepted throughout the FS industry. Nearly 50 % of the centres were established more than three years ago, most of them as managerial and independent units. Cross business or cross functional centres are not yet very common.

So far the companies concentrated on support processes (e.g. information technology, human resources, real estate). The majority of firms have not yet taken or recognized the opportunity to extend the focus of Shared Services to further value-added services in areas such as finance, risk and core banking processes.

SSC in the FS industry are mainly domestic or near-shore entities and have primarily country or regional scope. Eastern Europe and Asia are emerging as major SSC locations for FS companies.

Main findings and improvement areas:

- More innovative forms of SSCs like “Centres of Expertise” centralising expert know-how for group-wide availability are emerging.
- Compared to other industries, FS companies are lagging behind in setting-up SSC for finance processes like financial accounting, controlling and financial analysis.
- Core business processes like payment services, billing, collection and disbursement, recovery, and security transactions have a high potential for being set up as SSC.
- Soft factors such as education and availability of qualified personnel including language skill availability are key factors for selecting a SSC location followed by security and privacy of data and intellectual property.

Business Benefits and Challenges of Shared Services

The study illustrates that the use of SSC provides a significant opportunity for the financial services industry to reduce its cost base and increase its overall profitability. A vast majority of SSC realised more than 30 % cost savings. Due to economies of scale and greater organizational and financial ability to invest in technologies (e.g. to automate and streamline processes) large FS companies achieve higher cost savings than smaller institutions. The study participants ranked financial benefits in the back office processes the highest. However, also for market and client-facing processes like customer care the usage of SSC can reduce cost and improve quality and expertise. Investments into SSC are paying back short- and midterm. Most companies expected to break even within three to five years, but study results indicate that many SSC amortized within 12 months due to high wage arbitrage.

In addition to the financial benefits, almost all SSCs improved standardisation of processes and methods, led to lower transaction cost and extended time availability for higher value activities. Process excellence improvements were always supported by improved IT infrastructure (straight-through-processing) and actively managed service level agreements.

Main findings and improvement areas:

- The study reveals that decision makers who have already implemented an SSC for FS processes rated the benefits higher than respondents of companies that have not yet implemented it.
- Further cost and service quality optimisation in SSC can be achieved through continuous improvement programs, integrated ERP/IT platforms and end-to-end process reengineering.
- For the implementation of SSC a “top-down approach” is key to success. Almost all FS institutions that have chosen this approach achieved significant cost savings and were more successful than companies where the use of SSC is optional.

- To operate SSC successfully it is essential to carry out change management activities to overcome cultural differences even after the roll-out phase. Furthermore, a positive working environment attracting talented professionals and provision of training are further aspects to be considered to overcome these challenges.

Summary and Outlook

- As location decisions result in considerable investments, it will not be possible to realise constant cost savings through repeated SSC relocations.
- Cost saving based on labour cost arbitrage resulting from lower salaries in near-shore or off-shore locations will become more difficult.
- Limitations will be infrastructure, language skills and availability of qualified resources and data and intellectual security and privacy.
- Therefore it will be increasingly important to realise further optimisation potential in process standardisation.
- Organisational models like SSC have been accepted in the financial services industry and will be widely adopted in the future as it allows for significant cost savings and enhanced process quality in FS core and support processes.

Our contact

If you are interested in more findings from the BearingPoint SSC study, please do not hesitate to contact us. We would be pleased to present you the study results and SSC content during a personal meeting.

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