Shared Services in the Financial Services Industry:
An Operating Model to Reach Strategic Goals

High performance. Delivered.
Financial institutions have sought to enhance back- and middle office operations to deliver sustainable cost advantages for a number of years. To this end, banks and other financial institutions have often been early adopters of shared services and outsourcing. However, in the face of deteriorating market conditions, increased regulatory scrutiny and larger capital requirements, we have seen banks begin to explore these options more aggressively.
The path to a shared services model is not always easy, and many banks and their finance functions have encountered implementation challenges. Another problem is that shared services have not delivered efficiencies beyond the arbitrage in labor rates, and, in many cases, these gains have eroded over time due to wage inflation and changes in foreign exchange rates. New approaches to shared services can, we believe, provide better and more strategic benefits to their users.

We have assessed the maturity of the global shared services operations of banks’ finance and risk functions to gain insight into new trends in shared services, as well as the information challenges facing banks. We have also worked to identify the success factors critical in overcoming these challenges. The perspectives presented in this document are based upon our long history of working with banks across geographies and our recent observations.

Pressure on Banks’ Operating Costs

For years, financial institutions have invested in the improvement of back- and middle office operations to help achieve sustainable cost advantages, increase efficiencies and break down existing silos across business units and product lines. As seen in Figure 1, deteriorating market conditions, increased regulatory scrutiny and capital requirements have led to reduced performance post-2008. This has resulted in banks becoming more selective in how they deploy their capital and invest their resources. Consequently, banks have started to push more aggressively for strategically aligned and sustainable change, developing new approaches for global shared services operations and associated sourcing. These may involve increased outsourcing and offshoring to emerging market locations as part of the staffing of shared services operations.

**Figure 1. Reduced return on equity (RoE) targets after the crisis**

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**New “Normal” RoE**

**Post-tax RoE for European and US Global Banks**

<table>
<thead>
<tr>
<th>Pre-Crisis</th>
<th>Recession</th>
<th>Recovery</th>
<th>New Normal</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.9%</td>
<td>19.3%</td>
<td>15%</td>
<td>Non-discretionary “big-ticket” spending drops</td>
</tr>
</tbody>
</table>

**12% RoE a Stretch Target**

Source: Accenture analysis based upon publicly available data, September 2015
As seen in Figure 2 below, sourcing decisions play a pivotal role in supporting banks and their finance functions in meeting their strategic objectives.

Figure 2. Sourcing solutions to strategic objectives

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Potential Solutions Through Sourcing</th>
</tr>
</thead>
</table>
| **Efficiency**       | • Implement shared services as a lever to release costs through economies of scale and labor arbitrage  
                        | • Establish a stable, common baseline for further structural efficiency improvements (continuous improvement) |
| **Effectiveness**    | • Simplify transactional activities allowing a focus on value-adding activities such as business partnering  
                        | • Move away from an all in-house shared services model to an outsourced or hybrid captive and outsourcing model to enhance core competencies  
                        | • Expand shared services center (SSC) scope to more high-value processes such as analytics and reporting to strengthen their cost reduction potential |
| **Risk Management**  | • Spread operations across locations to maintain business continuity and help reduce dependency on specific economies  
                        | • Improve control through simplification and standardization  
                        | • Gain access and use technology to support disaster recovery, reduce costs and enhance agility and resilience |
| **Agility**          | • Gain access to standardized, scalable and specialized solutions to reduce time to market for new products and services |
| **Service Quality**  | • Gain access to specific talent and sophisticated processes to establish domain "specialization" |
| **Capital Efficiency** | • Establish the ability to release capital through efficient and effective sourcing |

Source: Accenture, September 2015
Our experience indicates that there are significant potential cost savings (with some companies reducing addressable spend by as much as 30 to 40 percent) that can be realized by moving to a shared services model. While most banks have already focused on those benefits to be gained through a transition to shared services (what we term Phase I), the focus should now shift to establishing an improved, more effective operation (Phase II). Potential cost benefits derived from the two transformation phases can be seen in Figure 3 below.

**Figure 3.** Phase I and Phase II activities and potential cost savings

<table>
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<tr>
<th>Phases</th>
<th>Value Gained Through</th>
<th>Potential Savings</th>
</tr>
</thead>
</table>
| **Phase I: Shared Services Transition** | • Labor arbitrage  
  • Economies of scale                                       | 15-20%            |
| **Phase II: Shared Services Enhancement** | • Process standardization  
  • Re-engineering  
  • Retained organization enhancement  
  • Demand management  
  • Governance, service-level agreement, performance management  
  • Continuous improvement | 15-20%            |
| **Total**                   |                                                           | 30-40%            |

Source: Estimate based upon Accenture experience and work in this space
Our field experience and observations indicate that most banks have been using shared services for a number of years.

While there are some trends common to most banks, there are also significant differences across banks’ approaches to shared services strategies and implementation.

Among the major observations:

• Since 2008, banks appear to have deepened the scale and scope of their sourcing activities and have increasingly moved from captives to more complex sourcing models, most notably the hybrid model (a mix of captives and outsourcing).

• The reach of implemented shared services operations is often group-wide and global.

• Cost reduction would appear to be one of their primary objectives for banks transitioning to a shared services model; however, finance and risk functions have begun aligning their sourcing decisions more closely with the bank’s strategic objectives.

• C-level leadership does not necessarily see shared services operations as a strategic priority. This we feel increases the risk of a fragmented approach to shared services along with contributing to unresolved and conflicting priorities.

• Banks have been expanding scope from transactional, high volume processes into more complex, specialized areas and corporate processes at group level. Figure 4 provides a view of the industry-wide direction of this migration for finance processes. Processes are labelled according to their shared services maturity level across the industry (Mature, Emerging and Pioneering).

• India, Eastern Europe and North America are preferred locations for most banks observed, but emerging locations include Asia (China, Malaysia and the Philippines) and South America (Argentina, Chile, Mexico and Brazil).

• Captive onshore shared services centers are still popular for their ability to deliver benefits while reducing the risk of disruptions.

• Main concerns for location decisions include the availability of an educated workforce, language barriers, and the overall cost savings potential, as well as political stability.

• More banks have begun to use shared services to spread operations across locations to help reduce their dependencies on specific economies, maintain business continuity and increase the agility of their response to local regulations.

• The requirement to establish ring-fenced banks (RFBs) and their relationship to shared services operations appears to be a major challenge; in particular, banks could face problems with the build-out of the intragroup service entities or operational subsidiaries needed to meet the ring-fencing requirements, including operational continuity during resolution.

• Banks generally started their transition to a shared services model as part of their in-house cost “reduction” programs, but we are now seeing banks that started in-house to begin buying specialist capabilities rather than building or maintaining their own.

• We are also seeing many banks invest in a common enterprise resource planning (ERP) platform to help increase standardization and realize benefits from scale.

• There is strong interest in new technologies such as cloud computing, but implementation of specific solutions is slow.
Figure 4. Migration of finance processes

<table>
<thead>
<tr>
<th>Customer</th>
<th>Business</th>
<th>Regulators</th>
<th>External Shareholders</th>
<th>Office of CFO</th>
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<tbody>
<tr>
<td></td>
<td>1. Business Partnership</td>
<td>2. Regional Finance and Regulatory Interface</td>
<td>11. COO • Finance strategy</td>
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<td>12. COO • People • Financials • Finance administration • Change portfolio • Inventory control</td>
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<td>3. Analytics</td>
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<td>4. Planning, Budgeting and Forecasting</td>
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<td>5. Accounting Policy</td>
<td>6. Tax Policy and Counsel</td>
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<td>16. Management Reporting</td>
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<td>17. Cost Reporting</td>
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<td>18. Tax Reporting</td>
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<td>19. Risk-Weighted Asset Reporting</td>
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<td>Reporting – Line of Business</td>
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<td>20. Product Control</td>
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<td>21. Profitability Analysis</td>
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<td>22. Control Assurance • Internal controls • Control assurance</td>
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<td>23. Reference Data • Accounts • Clients • Products</td>
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<td></td>
<td></td>
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<td></td>
<td>24. Change • Project management • Business analysis • Testing</td>
</tr>
</tbody>
</table>

Source: Accenture, September 2015

Level of Maturity: □ Mature □ Emerging □ Pioneering
Our belief is that many banks and their finance functions have not met the goals set out in their original business case for the implementation of shared services. Others have seen benefits erode over time, due to a fragmented approach to sourcing, fewer gains from labor arbitrage and other factors.

Implementation challenges facing banks appear in areas including:

**Strategy**

Banks may experience a lack of common strategy across functions, or changes to strategy over time may not be managed properly. Without these elements, gains are typically short-term and erode over time. In some cases, there is an initial strategy, but changing external factors such as restructuring or regulation are not reflected in strategic re-alignments. The better performing banks in our view are more likely to have planned and executed periodic strategy reviews.

**Operational Efficiency**

At some banks, the focus on cost savings has decreased efficiency and reduced the quality of processes. When banks focus exclusively on cost reduction through labor arbitrage and economies of scale—and not on structural change—we often see a less efficient organization, with process breaks and unnecessary handoff points between retained and shared services activities. Under such circumstances, the shared services organizations would face hurdles in attracting and retaining the right level of talent, which would affect their efficiency.
Leadership and Culture
In addition to a lack of C-Level sponsorship, we are seeing banks struggle with breaking down organizational silos to the extent necessary, leading to ambiguity and uncertainty.

Service Quality and Agility
The retention of shadow organizations can inhibit the agility of the shared services organization. Reversing previous outsourcing trends, we are seeing some banks start in-sourcing, bringing in-house more complex processes, or giving their business units greater commercial freedom to source their services.

Complexity
Many systems remain incompatible and complex, as inconsistent and/or insufficient data could pose additional problems for banks. Some banks have initiated large-scale ERP programs to create common platforms, but the scale and complexity of these implementation programs appear to have led to budget and time overruns.

Transformation
In our view a lack of change management skills and poor overall execution can hamper many shared services transformations. Stakeholders do not always understand the direction of travel, the overall program objectives or their own roles. Post-implementation, organizations often struggle with a lack of continuous improvement and inadequate governance and service delivery frameworks.
Our client experience helps us identify five critical success factors banks and their finance functions may wish to focus on when implementing shared services initiatives.

1. Define the Vision
We believe banks should define and agree upon overall objectives and a shared strategy which encompasses all functions and lines of business. All components of the strategy should be clearly related to business objectives, and the strategy should cover all aspects of the operating model, including people, processes, technology, performance measures and data.

The target solution should also be agile and flexible enough to reflect changing requirements, and scalable to provide the capacity to grow. It should, for example, be able to include and integrate new processes to improve potential benefits. Strategy development is not a one-off exercise and so the initial strategy should be reviewed periodically to validate that initial assumptions are still valid as external business factors and strategic objectives change.

2. Establish the Scope
Ideally, the current capabilities and maturity of the organization should be assessed and mapped against the capabilities required in the vision and strategy documents, to understand gaps and define the right sourcing scope. Then, end-to-end processes should be assessed and enhanced to avoid fragmentation.

3. Manage Change
Banks should obtain key stakeholder support early and focus on clarifying accountability. We have seen C-level sponsorship play a critical role in this area, as is making sure stakeholders understand objectives, success criteria and metrics. Stakeholders should have a vested interest in the overall performance of the program. These and other messages can be delivered through an effective, well-executed communications plan.

4. Determine Needed Capabilities
Banks should establish whether the capabilities needed to define and deliver the program are available in-house. If they are not, partners will be needed to bring in the required skills and know-how. The bank should draw upon the full scope of sourcing options so that it can focus on its own core competencies. Working with stakeholders, the bank could address perceived risks affiliated with different sourcing options, including loss of control; loss of institutional knowledge; and loss of agility and service quality.

5. Create a Road Map
A detailed road map accompanied by a clear business case could help deliver the strategy and describe the interim steps to be reached. The road map also helps establish a framework for measuring performance, and links this to overall stakeholder objectives. The road map should identify some areas where quick wins can be obtained, and these should be communicated throughout the organization. Finally, an effective program management office should be in place to manage the program, to track benefits and to communicate results to the shared services team and to the larger organization.
A shared services model offers banks and their finance functions significant benefits in terms of efficiency and cost reduction. Many banks, however, have had difficulty in implementing shared services programs. They have found their gains limited to savings from labor arbitrage, and have seen even those gains erode as wages rise in different locations.

Our experience with shared services indicate that a knowledge of critical success factors, including program ownership by senior management, can help banks realize much more from shared services than was previously thought possible. In addition to major cost reductions, banks can employ shared services to improve service delivery, address changing regulatory concerns, and free up the enterprise to focus on value-creating activities.

Banks that take a comprehensive approach to shared services, with a clearly defined strategy, buy-in from stakeholder groups, and a well-designed and well-communicated implementation plan, may be in position to gain and maintain an important competitive advantage.
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Daniel is a Managing Director, Accenture Strategy and works within the CFO and Enterprise Value Group. Based in London, Daniel combines over ten years of consultancy experience with hands-on leadership roles in finance transformation assignments and operating large scale shared services operations with on-shore and off-shore delivery capability. Specializing in financial management, corporate services transformation and integrated business services, he guides major banks and corporate entities in the design and implementation of shared services organizations.

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