

Update

Toward the Shared Service Center Plus: The Balance Between Efficiency and Legitimacy

by Bert Kersten

INTRODUCTION

Many large financial institutions have decided to create Shared Service Centers (SSCs) to achieve operational excellence in their business processes. More and more often, though, this generally correct decision generates conflict with another vital theme: the legitimacy of the transaction. This *Executive Update* shows that companies must find the right balance between legitimacy and efficiency in their SSC. To that end, the SSC Plus offers attractive and strategic opportunities for SSCs.

THE ONE-SIDEDNESS OF AN SSC

An SSC is a good example of implementing operational excellence in business processes; standardized activities that are highly routine are assigned to a specialized business unit — the SSC. This business unit, which in theory can also provide these services for other business units and

external businesses, is assessed on the basis of its operations' efficiency and effectiveness. Well-known performance assessment criteria include the number of transactions processed per time unit, the lead time of transactions, the number of errors, the percentage of straight through processing, and so on.

Examples of SSCs include specialized business units for payments, mortgages, claims, securities, acceptance, and mutation processing. As an example here we will use an SSC for handling claims submitted to an insurance company. These claims may relate to medical costs or other insurance policies. We will focus on processes involving not only the efficient processing of applications, claims, and transactions, but also the legitimacy of a payment/benefit.

An example of such an SSC is shown in Figure 1; it outlines only the primary process, omitting the

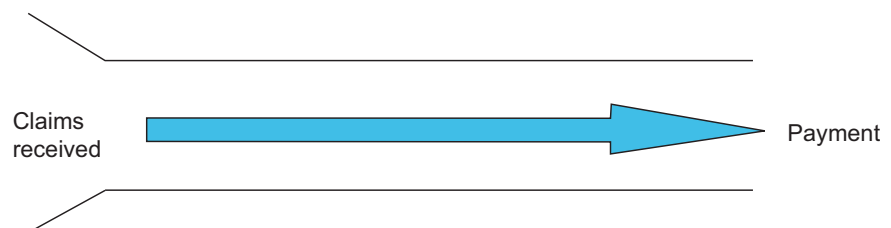


Figure 1 — Schematic representation of a Shared Service Center (SSC) for claims.

components of the process (receipt registration, digitalization, completeness check, approval, etc.).

The SSC management team tracks the performance criteria described earlier and strives to execute business processes as efficiently as possible. Among other things, this involves defining requirements for suppliers of the claims (e.g., how the work is supplied, the quality of the work, and the times at which the work is supplied) and coming to agreement on service quality and cost.

In practice, some SSCs operate perfectly, while others may suffer major problems. Several companies have terminated their SSCs, choosing instead to integrate them into the organization in another way. Experience shows that success with SSCs is about more than just efficiency.

EFFICIENCY VERSUS LEGITIMACY

When trying to achieve both efficiency and legitimacy, SSCs encounter the following dilemma: if every transaction needs a thorough verification of legitimacy, it is impossible to be effective; on the

other hand, if transactions are simply processed as efficiently as possible, legitimacy is compromised. However, legitimacy is not the key success factor of the SSC — efficiency is. SSC management is assessed for its ability to process transactions efficiently and on time; the responsibility for legitimacy resides with the product owners, who are no longer closely involved in the processing. It is therefore necessary to find the right balance between efficiency and legitimacy (see Figure 2).

Like efficiency, legitimacy comes at a price: current dilemmas include fraud detection and prevention in the insurance industry and money laundering detection in the banking industry. Sometimes detection occurs online in real time; but more obviously it will occur after the completion of a transaction, as examining these fraudulent transactions will disturb the main process flow. This means that a lot of time is wasted with both fraud that moves around quickly and adapts rapidly (e.g., with credit cards) and money laundering. It is therefore important to stay close to the transaction processing and to strive toward the best possible legitimacy.

Directives imposed on the industry by government and regulatory agencies complicate matters. The insurance market in the Netherlands, for instance, requires insurance companies to report on their activities and achievements in the field of fraud detection and fraud prevention on an annual basis. Similarly, banks must report unusual transactions and be on alert for suspicious activity.

This need for efficiency, legitimacy, and standards compliance has led to the expansion of the SCC to include additional operations — this is known as the SSC Plus.

THE SSC PLUS

In an SSC Plus, the SSC is expanded to include the following operations: fraud detection and prevention, management information, reporting to regulatory agencies, and tracking and tracing (i.e., monitoring the processing stream more adequately, in particular when claims are delayed and customers ask questions). Figure 3 provides a visual representation of the components in the SSC Plus.

Fraud Detection and Prevention

The SSC Plus must be large enough not only to achieve satisfactory efficiency benefits in claims processing but to have the necessary expertise for the “on top of” services (i.e., those services the SSC Plus provides to complement the base SSC services) as well. Fraud operations, for example, require staff members with high-level knowledge, attitude, and skills as well as the right domain knowledge and the knowledge to extract, process, and analyze data files rapidly. Moreover, staff must be alert and flexible. Skills to combine domain information, mathematical techniques, and data quickly are required to detect fraud effectively and rapidly. Minimum critical mass is necessary to provide continuous services and

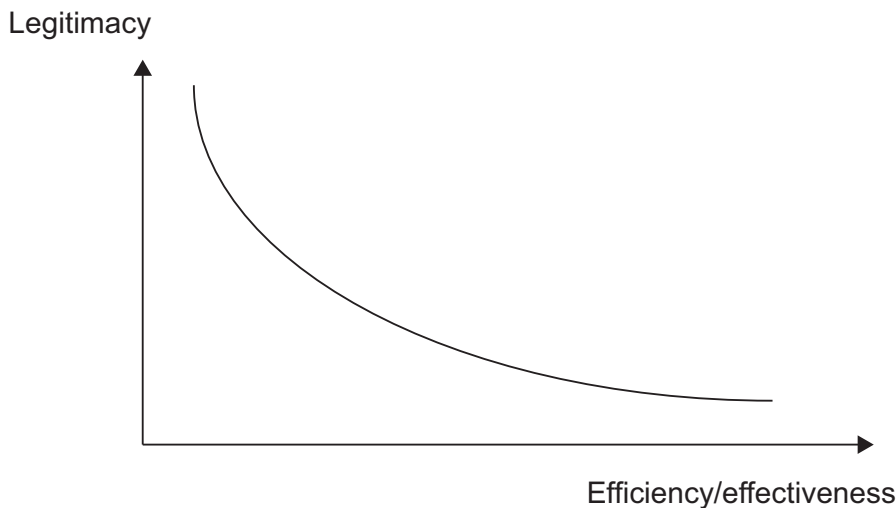


Figure 2 — The relationship between legitimacy and efficiency in transaction processing.

to acquire and maintain knowledge. Suspect or notable cases are transferred to the fraud coordinator of the relevant insurance company that submitted the claim(s). The latter's feedback is incorporated into the detection engine that monitors the claims flow on a continuous basis.

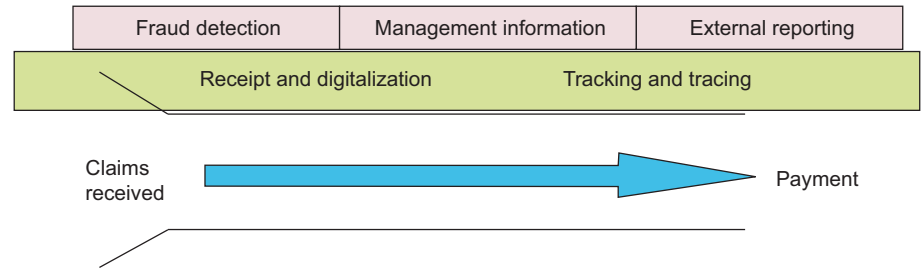


Figure 3 — Schematic representation of the SSC Plus.

Management Information

Management information relates to the operation of the SSC Plus in terms of efficiency as well as the results of legitimacy. Because it relates to both efficiency and legitimacy, management information adds more value for the product owners.

External Reporting

Reports to the regulatory agencies are based on agency requirements. Moreover, they can be modified rapidly if the agencies relax or intensify their guidelines. The SSC Plus takes over these obligations from the company.

CONTROL AND ASSESSMENT

It is clear that the SSC Plus must maintain an appropriate balance between efficiency and legitimacy. It is therefore important that there is a countervailing power for the manager of the SSC who — logically — focuses primarily on efficiency. A supervisory board must monitor the operations and ensure that sufficient funds and energy are invested in subactivities that focus

on legitimacy. This interaction of forces will result in a good balance between efficiency and legitimacy.

DO-IT-YOURSELF OR OUTSOURCING?

An SSC is able to provide services to other business units and external companies; in other words, companies can outsource some of their processes to an SSC. An SSC Plus — because of its expertise in the fields of fraud detection and prevention, dedicated management information, and compliance with regulatory agencies' standards — provides even greater options for companies interested in outsourcing their processing and monitoring. An SSC Plus relies on adequate scale to realize the benefits of increased efficiency as well as critical mass to organize its expertise of its "plus" operations.

CONCLUSION AND PROCEEDING FORWARD

In a "normal" SSC, the strong focus is on the efficiency of the operations. This is a sound strategic road to take but its shadow side

is that legitimacy is sacrificed. Opportunities arise for IT departments and SSCs by offering additional services to their clients who will — beyond any doubt — appreciate the attention the SSC gives to legitimacy, to the need to help the client in fulfilling the requirements of regulatory agencies, and, last but not least, to adequate management information. This information deals not only with transactions processed but also on the rightfulness of the transactions.

In the SSC Plus, transactions are processed effectively — that is, both efficiently and legitimately. This is why the SSC Plus is promising for large-scale transaction processing. It can help organizations succeed on the road of shared services.

ABOUT THE AUTHOR

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