

The Integration of a Subsidiary into the Shared Services Center of a Commercial Bank

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Introduction

Operational efficiency and the constant optimization of business processes is a must for every firm in order to stay competitive in the market. This is especially true for large corporations consisting of several subsidiaries operating across multiple countries. An SSC (Shared Services Center) is a very common tool to achieve cost efficiency and increase the quality of supporting processes. The capstone project is focusing on a commercial bank and its subsidiaries operating in Hungary. The goal of the project is to prepare the integration of the factoring subsidiary into the financial SSC established and operated by the parent company. The paper describes the project and the major decisions taken regarding the specialty fields involved in the integration.

Presentation of the Client Organization

The client organization is a key player in the financial sector of the CEE region, operating in 9 countries, serving 13 million clients and employing 35000 employees. The group's core businesses and its headquarter are located in Hungary, but after completing several successful acquisitions throughout the years it expanded into a truly multinational organization. The group is providing a wide range of financial services through several subsidiaries both in Hungary and abroad. Typical core financial services are provided through a bank, but the specialized services, including car leasing, investment funds, factoring are offered through the bank's different subsidiaries.

There is a significant overlap in supporting processes (e.g. legal, financial, HR, IT, etc.) across the several subsidiaries so this is an excellent opportunity for an SSC.

Shared Services Centers

A financial SSC has been established in 2006 within the headquarters in order to achieve operational excellence and cost efficiency across the group by providing centralized financial services for as many Hungarian subsidiaries as possible. Although there are some international SSC members as well, the primary focus is on the local subsidiaries. The financial services offered through the SSC are covering the fields of accounting, taxation, payroll services, operations, controlling and regulatory reporting. Currently there are more than 50 SSC members including the bank, the building society, the mortgage bank, the fund management, the leasing, etc.

Description of the Project

The ultimate goal of the project is to integrate the Hungarian factoring subsidiary in the SSC by the end of 2019 and prepare the transition to IFRS (International Financial Accounting Standards) from HAS (Hungarian Accounting Standards) starting with fiscal year 2020. The capstone project itself is covering the preparation of the integration, including the detailed analysis of the processes involved.

Scope

The current (As-Is) processes of the target organization have been compared to the standard SSC processes. After that, the new (To-Be) business processes have been identified aiming to be as close to the standard SSC processes as possible. After the gap analysis it has been concluded that the integration will be a full integration covering as many specialty fields as possible: accounting, tax advisory, payroll services, operations, controlling and regulatory reporting.

A contract between the subsidiary and the SSC (the service provider) has been prepared covering the terms and the conditions of the services offered. This involved the active collaboration of the specialty fields as well as the legal and compliance departments. Due to GDPR (General Data Protection Regulation) requirements a lot of emphasis has been put on the handling of personal data.

Timing

The project has been officially kicked off in the last quarter of 2018. The scope of the integration, including the specialty fields involved, have been identified and a high level concept for the integration has been developed for each field at the end of 2018. A detailed analysis for the integration has been performed identifying the business processes and IT applications involved. The detailed IT specifications necessary to implement the IT developments on both sides have been prepared. The transition itself will take place at the end of the fiscal year because of the IFRS transition.

Resources

Major resources involved include internal human resources as well as the necessary financial resources covering the IT developments. Project expenses are kept confidential and they are not disclosed.

Level of Integration

The following major decisions have been taken after the detailed analysis:

Accounting: the bookkeeping in the SSC is under IFRS instead of HAS and the chart of accounts of the parent company is applied.

Operations: handling of the accounts payable is fully performed by the SSC, the accounts receivable is handled by the SSC except for some of the invoices regarding the loan portfolio.

Taxation: a full range of tax advisory services are provided including legal interpretations, preparation of tax declarations, transfer pricing, self-revisions, etc.

Payroll: a full range of payroll services are offered including salary, sick-pay, family allowance calculation, salary transfer and tax as well as contribution settlement tasks, etc.

Controlling: the determined financial controlling reports are prepared by the SSC on a regular basis (e.g. headcount reporting, cost reporting, etc.).

Regulatory reporting: the mandatory regulatory reporting is handled by the SSC, covering the reporting requirements toward the central bank of Hungary. The reporting toward the credit bureau is not covered by the SSC.

IT: because all of the activities above are highly data intensive and most of the processes are automated in order to achieve operational efficiency, the SSC integration has a significant IT integration aspect. The applications involved in the SSC activities are the ERP (Enterprise Resource Planning) system as well as the financial data management and reporting systems.

Conclusion

Although it is quite straightforward to integrate as many subsidiaries as possible into an SSC when it comes to implementation this can be a quite complex procedure. A significant number of resources have to be committed and the project can last from several months up to one entire year depending on the complexity of the target organization. It is very important

that the transition itself has to be seamless from the core business's perspective and because of this a lot of emphasis should be put on quality assurance.

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