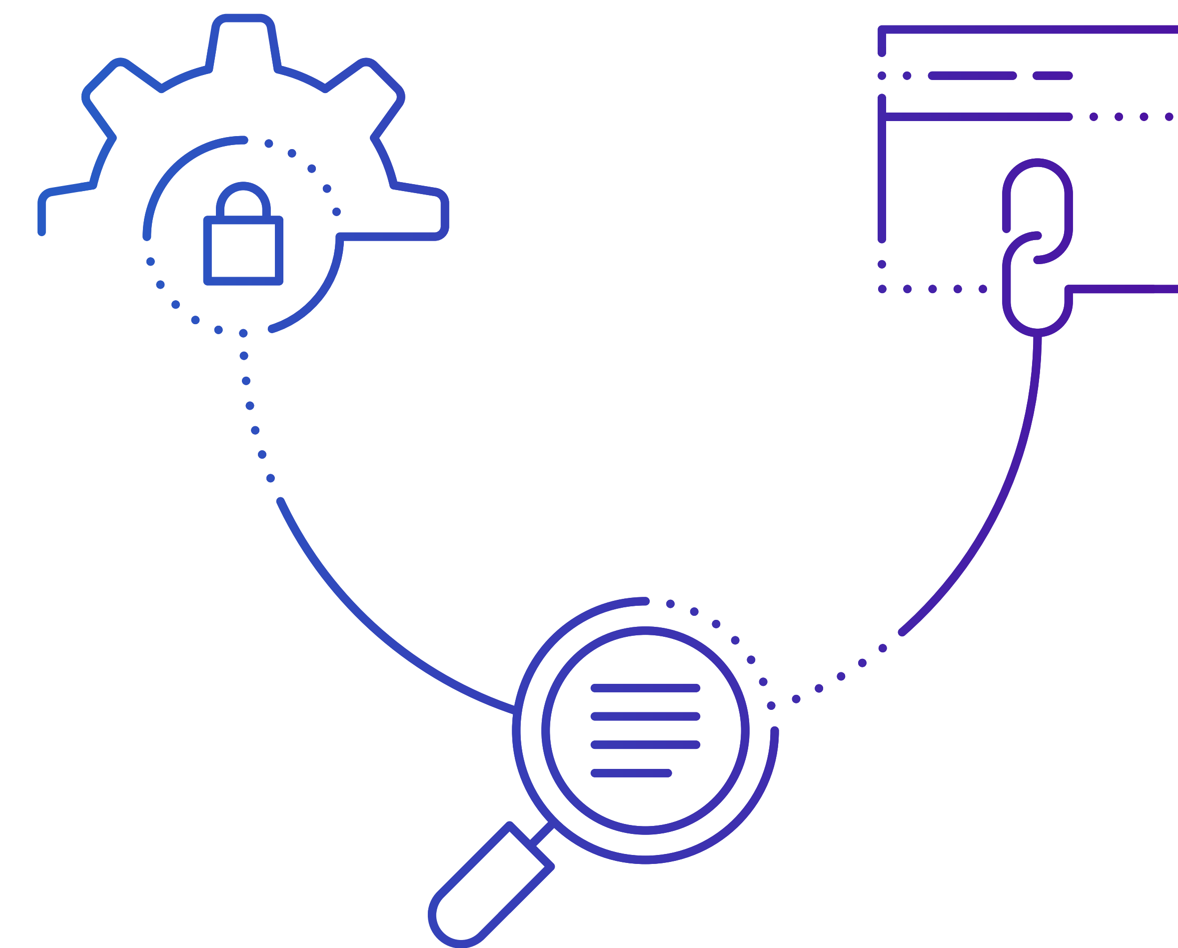
MASTERING BANK MERGERS:

11 ESSENTIAL STEPS TO M&A SUCCESS

The regional and community banking sector is expected to witness a wave of consolidation in 2024 and 2025. Today's banks are looking for ways to gain a competitive edge in the face of challenges such as a slowing global economy and the impact of interest rate changes.

With macroeconomic uncertainty and regulatory pressures, mergers and acquisitions (M&A) have become a strategic move for banks to handle market volatility and boost income. At the same time, banks are under pressure to increase value for depositors, which could squeeze their profit margins and drive consolidation.

During an M&A, banks must look beyond the financial assets and consider the people, process and technology. Successfully integrating these components will significantly impact the outcome of the merger.



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To navigate this complex process, there are 11 crucial actions that banks need to take, not only to facilitate a smoother transition but also set the stage for the anticipated post-merger landscape:

1. **Define the target operating model:** A key step for a bank during an M&A is determining their target operating model. This involves identifying the strategy, the desired products and services they plan to offer and the underlying structure, processes and systems the combined entity will use to deliver those products and services to their end clients. During this stage, it is crucial to consider the requirements of the combined bank, specifically how they can be integrated to create a cohesive operating model.

2. **Evaluate systems conversions:** Once the target operating model has been designed, banks must develop their conversion strategy to align with it. This includes evaluating the current technology stacks for each bank, including core banking systems, online banking platforms and other software or applications used by one or both banks. It is important for banks to consider the scalability and integration capabilities of their technology systems post-merger to ensure they can accommodate the bank's growth goals.

3. **Assess IT infrastructure:** In addition to evaluating all systems, banks must also determine how they will integrate their IT infrastructures. This includes networks, servers and data storage facilities. It is also important to identify gaps, redundancies or incompatibilities that may affect the integration process. Merging these infrastructures can be complex and time-consuming but is necessary for seamless operations post-merger.

4. Consider customer experience: During and after the merger, it's critical to create a seamless customer experience across both entities. This requires having a single brand promise, set of products and services and overall identity. For example, changes in online banking platforms or mobile apps should be communicated clearly to customers beforehand to avoid confusion or frustration. Banks should also ensure that there are no disruptions in service during the transition period.

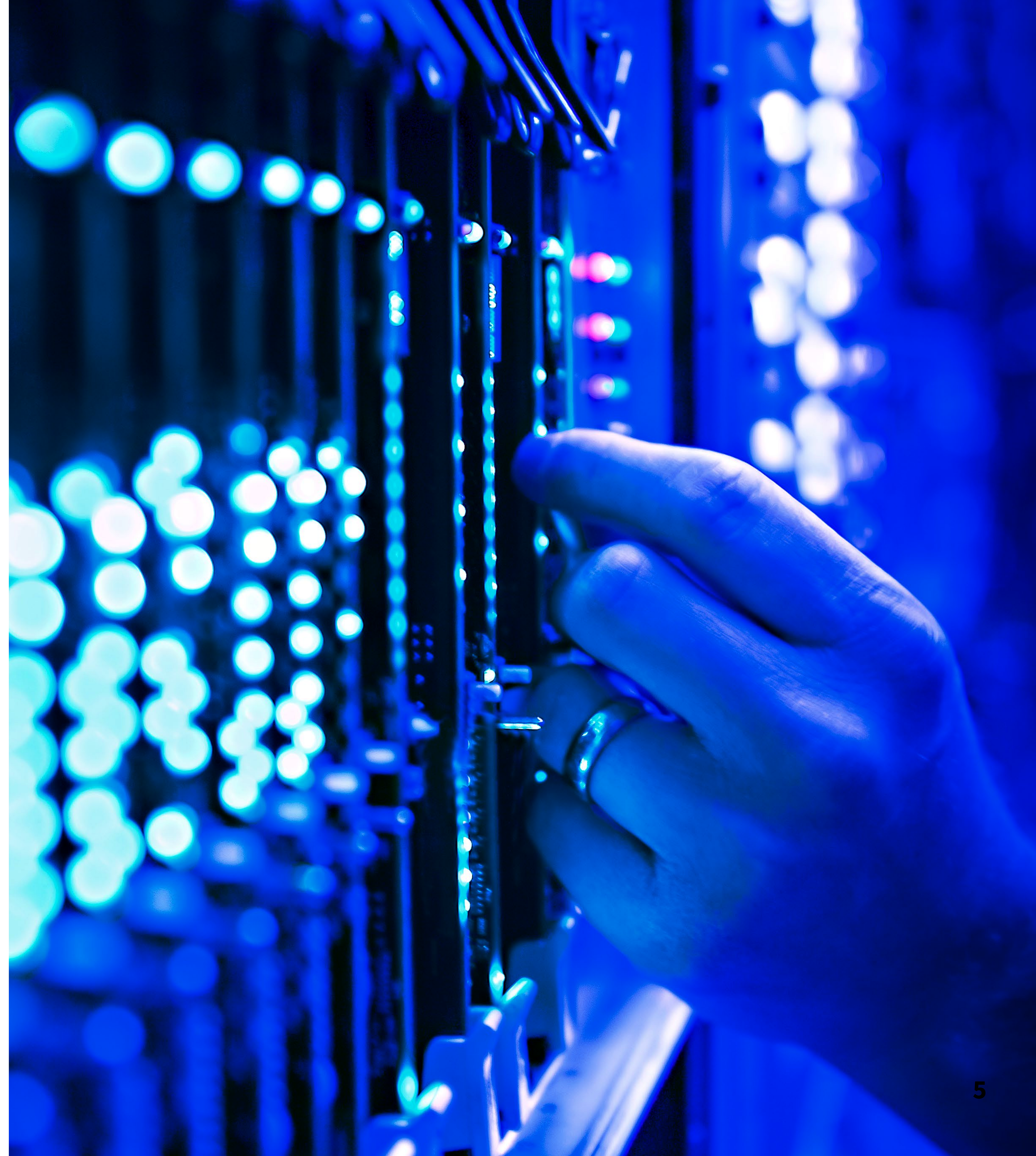
5. Focus on cost savings: A key driver for merging organizations can be the cost savings achievable by eliminating redundancy. This may involve removing duplicate IT environments, as well as staff, branches, support and shared services teams. It is essential for banks to expedite the transition to future state platforms as quickly as possible to realize these cost savings, but equally important to help ensure minimal to no end-client impact occurs.

6. Develop an effective conversion plan: A meticulous systems conversion plan is key for success. It should be relatively risk-averse while still achieving the desired outcomes, which may include cost savings, improved customer experience, scalability or new or better products and services. The plan should clearly state detailed steps and activities for the conversion and define roles and responsibilities for both banks. Establishing guiding principles at the onset can help create consistency and alignment to the strategic vision and goals.

7. **Identify potential risks:** There are bound to be challenges and risks that arise during the systems conversion process. Banks should anticipate and identify these potential challenges early on to mitigate their impact. Leveraging a proven methodology is critical. Strong risk management processes can help manage the risks in this type of initiative and overcome the lack of prior experience by implementing conversion best practices.

8. **Communicate with stakeholders:** Bank management must communicate the key drivers for the transformation to their stakeholders. Effective communication and transparency are crucial before, during and after the merger. Banks must keep all stakeholders informed and updated throughout the process, including employees, customers and shareholders.

9. **Guard data security:** The merging of two banks brings together a large amount of sensitive customer data. Banks must prioritize data security and privacy during this process to protect their customers' information from potential breaches or leaks. This may involve implementing proper protocols for data transfer and storage, conducting thorough audits, applying stronger security measures and ensuring compliance with regulatory requirements.



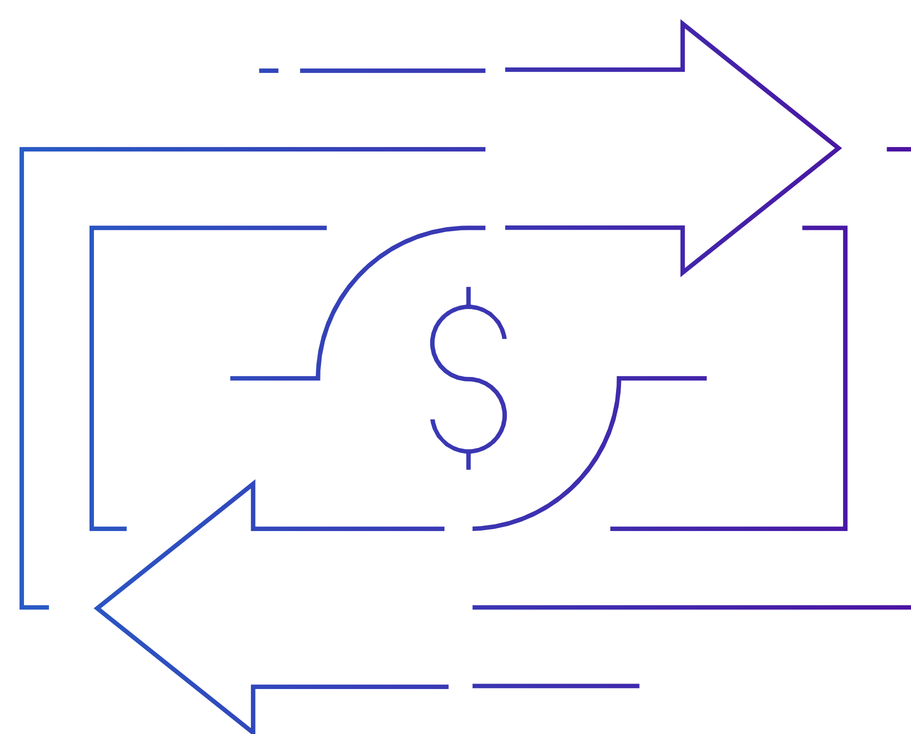
10. Manage employee transition and retention: M&A often involves employee transitions and restructuring. It is important to have a clear plan in place for managing these changes and providing support for employees who may be affected. Banks must also have a plan for retaining, engaging, developing and training the post-merger staff, as well as fostering a collaborative and inclusive culture that supports the combined entity's vision and values.

11. Engage an experienced partner: Navigating the different aspects of M&A can be complex and challenging. That's why it is essential for banks to partner with experienced professionals who can provide guidance and expertise throughout the process, from defining the future state to executing an effective systems conversion plan. If a bank is not a serial acquirer, the experience of a partner can be the differentiating factor in the program's success.

M&A can offer significant opportunities and benefits for banks, but it is a complex process requiring detailed planning and execution, especially from a technology perspective. By focusing on these 11 steps, banks can ensure a smooth transition for employees, continue providing excellent customer service and set a solid foundation for future growth and scalability. This strategic approach can significantly increase the chances of a successful merger, making the new entity stronger, more secure and ready to face the future of banking.

FIS: YOUR PARTNER FOR M&A SUCCESS

A core transformation is a major challenge, but one that can be overcome with the right strategy, solution and partner. FIS is ready to help you embrace transformational change and maximize your performance. With a history of successful client conversions using our proven methodology, FIS ensures smooth transitions during the M&A process. This expertise extends to managing due diligence and prioritizing investments for growth. In an environment where regulatory approval uncertainty is on the rise, having a partner like FIS, who understands the complexities of financial institution merger transactions, becomes critical. So, whether you're navigating the uncertainties of a merger, seeking to streamline your operations post-acquisition, or looking for a partner to help drive your growth strategy, FIS is here to guide you every step of the way.



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FIS is a leading provider of technology solutions for financial institutions and businesses of all sizes and across any industry globally. We enable the movement of commerce by unlocking the financial technology that powers the world's economy. Our employees are dedicated to advancing the way the world pays, banks and invests through our trusted innovation, absolute performance and flexible architecture. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS ranks #241 on the 2021 Fortune 500 and is a member of Standard & Poor's 500® Index.

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