

MANAGING THE IT CHALLENGES OF M&As IN THE FINANCE INDUSTRY

As financial services firms merge, effective IT integration is an essential step toward success.

EXECUTIVE SUMMARY

The financial sector has seen significant merger and acquisition activity in recent years, and many financial firms are continuing to explore potential deals to partner with or absorb complementary institutions.

These deals are driven by a range of factors, including a desire to expand into new geographical territories, increase product and service offerings, and leverage valuable human capital and digital assets. When executed well, M&A deals can help accelerate growth and improve a firm's strength in the marketplace. But these major transactions can present a number of significant integration hurdles — including the challenge of bringing together two or more organizations' disparate IT environments.

To overcome these challenges, and to create a new organization that is positioned to compete and innovate in the future, business and IT leaders must work together throughout the M&A process. First, they must identify challenges and opportunities presented by existing IT assets; next, they must create a plan for integrating technology; and finally, they must do the work of consolidating systems in ways that both minimize confusion for employees and maximize value for the organization.

The Challenges of Mergers and Acquisitions

The banking and capital markets sectors are buzzing with merger and acquisition activity.

According to [research conducted by Deloitte](#), 258 deals in the industry were announced in 2018, roughly on par with the 256 transactions that took place the year before. However, the average deal value in 2018 (\$191 million) dwarfed that of the previous year (\$157 million), and at least five deals topped the \$1 billion mark. Deloitte expects M&A activity over the next year to mirror the recent past.

For some financial services organizations, mergers and acquisitions are driven by a desire for a financial windfall in a strong economy, while others are seeking to improve their competitive position in a tough market. Large regional financial institutions, Deloitte notes, may seek to swallow smaller competitors in the wake of a 2018 regulatory change that raised the asset threshold for categorizing a bank as "systemically important" from \$50 billion to \$250 billion. Other trends and factors that could spur additional M&A activity in the sector include:

- A lowered corporate tax rate, which has increased bank earnings — leaving many regional banks with surplus cash to invest in capital activities, including mergers and acquisitions
- A shift in the regulatory landscape, including changes in leadership at regulatory agencies (often accompanied by a more relaxed approach to regulatory supervision)
- Increasing interest rates, which are resulting in improved yields to institutions' investable assets
- Competition for deposits
- Reduced bank valuations, which present a potential opportunity to acquire institutions

Mergers and acquisitions present an exciting opportunity for financial firms. Before a deal is finalized — and during the early days after two organizations begin to integrate their assets and operations — executives' heads are filled with visions of best-case scenarios. The convergence of top talent from both companies can spur unprecedented innovation; the consolidation of redundant systems and departments can reduce costs and improve efficiency; and the larger footprint, increased visibility and overall greater capacity of the new, stronger organization can make it easier to attract new customers and expand into new territories.

None of these scenarios is inherently unrealistic. After all, these potential benefits are some of the very reasons financial firms pursue M&A deals in the first place. But too often, the realities of actually integrating two separate organizations result in challenges that prevent mergers and acquisitions from achieving their full potential.

Acquiring organizations often face unanticipated (or greater than anticipated) challenges around issues such as merging business processes, adapting to new regulations (which can

change with geographic moves), loss of institutional knowledge due to exiting employees and the inability to rightsize.

Often overlooked as a critical element amid all of these moving parts is the role of technology. Sometimes ignored by executives who are exploring potential M&A deals, technology integration has the ability to make organizations more productive and efficient; but it also has the potential to create confusion (or, in the worst case, chaos) if organizations don't carefully craft and effectively

implement a plan to bring disparate systems together in a way that creates value and simplifies workflows.

The benefits and challenges of IT integration cut across virtually all industries. For instance, organizations in any sector might rejoice at the realization that they can cut their application development costs after an M&A deal, only to then spend months doing the tedious work of merging email systems or trying to consolidate redundant customer data.

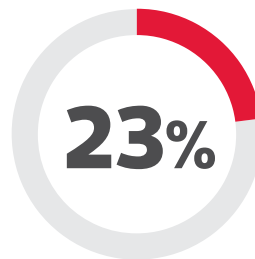
But the role of technology is perhaps even more important in financial services than in other sectors, as financial

technology (or fintech) has become a major driver of M&A deals in the industry. Over the past half decade, Deloitte reports, the financial services sector saw nearly 1,000 fintech M&A transactions. In 2018, the average value of such transactions hit \$1.1 billion, a more than fourfold increase from the previous year's average. The 2018 figure is inflated by a single enormous transaction: Blackstone's \$17 billion acquisition of a 55 percent stake in Thomson Reuters' risk business, which was nearly three times as large as the next-highest transaction that year. Still, there's no mistaking that fintech has become a major factor in the world of financial services M&A deals.

"Fintechs are increasingly seen as the spark — and in some cases the engine — of true innovation and transformation within a growing number of financial institutions," Deloitte reports. "For example, many banks and wealth management firms are looking for better ways to connect with their retail clients (especially the younger ones who have less brand appreciation for financial institutions) and grow deposits. Acquiring, investing in or partnering with fintechs that offer a friendlier customer interface or more diverse, digitally powered product lines could become a bottom-line boon."

In other words, leaders at financial institutions are increasingly viewing technology and innovation as important (some would say necessary) factors for staying competitive in their industry, particularly as they attempt to attract tech-savvy millennials who demand intuitive consumer-facing solutions. And many of these leaders are also realizing that it's often a lot more effective and less expensive to acquire a company that already has the capabilities they need.

Although acquiring a new firm might be simpler than building out new capacities internally, these transactions aren't always easy. Executives at financial services firms are smart to see the



The percentage of executives who identified effective integration as the most important factor in a successful M&A transaction¹

potential cost reductions, productivity gains and innovation that can flow from merging with or acquiring another organization — especially one that brings valuable fintech to the table. But for those visions to become reality, they need to be accompanied by substantial planning and hard work.

And the earlier in the M&A process that this work begins, the better.

How to Smooth the IT Transition

When mergers and acquisitions go well — when they result in an organization that is stronger and more valuable than the sum of its parts — it is because business leaders have approached each step of the process with cautious optimism, looking for potential pitfalls or challenges, and then working to find ways to overcome them. The M&A process is made up of three distinct stages: the vision phase, the due diligence phase and the integration phase. During each stage, business leaders must take steps to ensure that the deal will achieve its objectives. Savvy business leaders will make technology integration a top priority at each stage of the M&A process.

1. The Vision Phase

The vision phase is like the dating stage of a relationship: It's filled with excitement about the possibilities ahead, but both parties are also looking for signs that point to whether their potential partner is a good long-term match. In fact, much of the activity at this stage resembles literal dating, with firm leaders going out for drinks with one another to discuss their visions of the future.

These early conversations are likely to revolve primarily around the strategic drivers behind a potential merger or acquisition, including factors such as expansion into new

territory or the addition of a new service or product offering. But business leaders also begin to discuss major logistical considerations — including human resources, capital assets and potential deal finances — during the vision phase. Technology should absolutely be a part of these conversations. Even if an M&A deal isn't centered on fintech, the eventual integration of IT systems will be a major part of bringing the two companies together. While not every aspect of IT must be hashed out during the vision phase, business and IT leaders should discuss any systems that enable business-critical tasks.

Security and compliance should also be discussed during the vision phase. In deals where one organization operates in a more restrictive compliance environment than the other, both parties will likely need to eventually meet the more conservative standard.

2. The Due Diligence Phase

If the early envisioning around an M&A deal is a courtship, then the due diligence phase is the engagement period. Both parties are serious about entering into a lasting partnership, and they are working hard to ensure that the union will be a success. During this stage of the M&A process, the acquiring company should develop a deep understanding of the organization it will be taking over, including that organization's existing technologies.

Business leaders should consider what will need to change about each organization's IT environment, what will stay the same and what resources are necessary to drive innovation and transformation in the future. Additionally, IT leaders should be heavily involved during the due diligence phase, as organizations should use this time to get into the details of complex subjects, such as software licensing agreements and the mix of public cloud and on-premises resources.

3. The Integration Phase

Here, the marriage begins. At this stage, the acquiring firm should develop a comprehensive strategy that charts a path between the organizations' current IT states and where company leaders want the new organization to go in the future. The integration phase requires IT teams to integrate systems, hammer out the details of compliance issues and communicate effectively with employees.

In addition to IT management and top executives, the integration phase ideally should include rank-and-file employees. These workers, including both technicians and day-to-day users of IT systems, often have a different (and sometimes better) understanding of how technology actually works within an organization than leaders do. Line-of-business leaders from departments such as human resources, marketing and legal should also be represented.

15%

The percentage of organizations that rank technology acquisition as the most important aspect of their M&A strategy¹

The State of M&A: By the Numbers



- Among executives at U.S.-headquartered corporations engaged in mergers and acquisitions, **76 percent** expect the number of deals closed by their organization to increase over the next year. For M&A leaders at domestic private equity firms, the number is even higher — **87 percent**.
- In financial services, **70 percent** of organizations expect the average deal size to increase over the next year.
- About **40 percent** of organizations said that half of their deals fail to generate the value expected at the time of the merger. Gaps in integration execution (**32 percent**), the lack of a well-defined strategy (**24 percent**) and inadequate due diligence (**23 percent**) are common reasons for deals failing to produce their anticipated return.

Source: Deloitte, "[The State of the Deal: M&A Trends in 2019](#)," January 2019

Important considerations for IT integration include:

Inventory: Organizations should have visibility into all existing hardware and software assets.

Site surveys: By visiting physical sites and remotely surveying virtual environments, integration teams can verify reported inventory and identify potential problems (such as lax physical security for sensitive digital assets).

Data center operations: It's important for integration teams to understand how each organization manages data center infrastructure. Some job roles may be changed to improve efficiency and make the best use of internal talent.

Network assessments and integration: Integration teams must assess existing networks and determine the best path for eventually combining networking infrastructure without disrupting application performance.

Security assessments and integration: Engagements such as vulnerability assessments and penetration testing can uncover potential cybersecurity gaps and verify regulatory compliance.

Migration of apps and data: In some cases, it may take a year or more to integrate apps and data. This process should not be rushed.

Field resources: Integration teams must understand which

people and infrastructure are located outside of headquarters or branch offices, as well as how they're connected to the business and IT.

Vendors and partners: Organizations may end relationships with certain suppliers, or use their new scale to negotiate more favorable agreements.

2.8 years

The average amount of time after a merger or acquisition that companies require to achieve the full benefit of synergies (such as improvements in earnings or cashflow)²

Solutions and Services to Support M&A

Successfully integrating technology during and after an M&A deal requires organizations to strategically deploy a number of IT solutions and services. Identifying the right mix of tools can be tricky, as technology vendors typically don't produce solutions specifically designed to assist with post-merger IT integration. Rather, organizations must look to the general IT market for the analysis, migration, security and other tools they need and then leverage these for the tasks specific to M&A integration.

Services that support migration, security and other aspects of technology integration are often a critical component of successful M&A execution. This is especially true for organizations that lack internal staff with experience managing M&A technology integrations.

Analysis Tools

During a merger, IT teams must conduct a thorough inventory of the IT assets of each partner. After all, integration teams can't create a runbook that guides the way they'll bring together procedures, operations and IT systems if they don't have an accurate accounting of all of the hardware and software assets that exist within each organization's environment. In addition to cataloging each M&A partner's IT assets, technology integration teams will want to identify the dependencies between various applications.

In many cases, existing monitoring and analytics solutions can aid in this analysis. For instance, if a firm already has a robust application dependency mapping tool, that product may suffice for visualizing how various applications interact with and rely on one another. Some digital inventory tools work only with virtualized environments; in environments that lack significant virtualization, integration teams may be forced to rely on manual processes for conducting IT inventories.

Creative integration teams can often find helpful analysis tools in unlikely places. For instance, a simple ticketing system can be valuable for identifying potential pain points and managing IT integration.

Communication Is Key

When a financial firm is absorbed by a competitor, employees are full of questions — about how the new organization will operate, about new leadership and, yes, about which IT systems will be relevant going forward.

The Institute for Mergers, Acquisitions and Alliances notes that 75 percent of executives say that communicating with employees and harmonizing corporate culture are the most important factors for post-merger integration. And, when CEOs were asked after a merger what changes they would make if they had to do it over again, the top response was how they communicated with employees.

The [IMAA offers these four tips](#) for communicating clearly during a merger or acquisition:

Listen: Don't just talk at your employees. "Establish two-way communication channels, and encourage supervisors to invite dialogue," IMAA writes.

Inform: Don't leave employees in the dark. IMAA suggests, "Be transparent — share relevant facts as soon as possible."

Lead: Leaders should be role models, "equipped to communicate a consistent story and to execute the change actively and visibly."

Involve: It takes more than a transition team to pull off a successful merger. "Consider identifying and equipping a broader network of people who can influence others as change advocates," IMAA advises.



Data Migration Tools

Bringing together corporate data from two organizations is one of the most critical — and most challenging — aspects of M&A IT integration. This process is essential for tasks such as application migration, maintenance or upgrade activities, replacements of infrastructure such as storage appliances and servers, data center migrations or relocations and website consolidation.

It's not uncommon for IT teams to lack visibility into where data resides within their own organization, and this lack of transparency can create significant problems after a merger or acquisition. For instance, it's possible that both parties in an M&A deal will have many of the same customers. Ideally, each firm's customer data will be cleansed and combined into a consolidated record that can be easily accessed and navigated by employees who need this information. When firms don't know where all of their data resides, however, it becomes difficult to merge records in a cohesive manner. Master data management tools can help firms to locate and consolidate their critical data.

Cloud Tools

Some tools enable organizations to build out cloud planning and migration roadmaps. These roadmaps can reduce costs by helping financial firms avoid overbuying cloud services and set more favorable pricing terms. These are important considerations, as firms will be unable to achieve the full potential value of an M&A deal if they start out of the gate with a sprawling, overpriced cloud environment.

Other cloud tools enable a holistic view of IT workloads — both on-premises and in the cloud. By enabling a higher degree of visibility, these tools can help firms to more effectively manage their IT environments, resulting in improved security and efficiency.

Security Tools

Security is an essential consideration for every financial services firm. Integrating security solutions is a major challenge, and firms should pay special attention to Active Directory integration, as well as to security management solutions. If the integration team at an acquiring firm fails to spot vulnerabilities in the organization being absorbed, those security gaps essentially become their problem going forward.

Cybersecurity tools, such as next-generation endpoint protection, next-generation firewalls and other solutions that protect data and applications from attack, are important for securing the IT environment after a merger; but the integration process relies more on assessments meant to root out existing vulnerabilities. These may include vulnerability assessments, penetration testing, compliance assessments and other engagements.

Services

Unless a financial services firm is acquiring new companies every year, internal IT teams will likely need help managing technology integration. Even if a firm goes through an M&A deal once every few years, technology simply changes too quickly for internal staff to stay abreast of issues that are only likely to pop up during a merger or acquisition.

That's why many financial services firms bring in external help to lead processes including inventory and analysis, data migration, cloud roadmapping and security assessments. Not only will third-party teams have expertise that internal teams lack, but their presence will also prevent internal staffers from being overwhelmed by trying to simultaneously lead IT integration and manage their regular day-to-day work. In a multimillion-dollar merger or acquisition, the stakes of IT integration are high. It's worth making the investment to get the process right.

\$66 Billion

The estimated value of the February 2019 merger of BB&T with SunTrust Banks, making the deal arguably the largest bank merger since the financial crisis in 2008³

M&A Q&A

The global management consulting firm Bain & Company advises firms to ask a number of important questions at various stages of the M&A process.



Due Diligence

- How long will integration take, and how quickly will value be realized?
- How efficient is each organization now, and is there room for improvement?
- Does the acquiring company have scalable IT systems and infrastructure that will support the addition of new assets?
- Has the leadership team successfully managed past mergers?

Mobilizing the Integration

- Has an integration structure been put in place, and is there an integration team headed by an effective leader?
- Is there a plan to communicate the value of the deal, as well as what the future will look like for employees, customers and other stakeholders?

Integration Planning and Execution

- Do the organizations have a credible plan and the needed resources to achieve the synergies they've identified?
- Who are the influencers and critical contributors in the new organization, and how can they be retained?
- What did the organization learn through the creation of the new company, and how should those lessons inform future strategy?

Source: Bain & Company, "[Large-Scale M&A: Capturing Value Demands Flawless Integration](#)," February 2019

Source: ³AlphaStreet, "[10 biggest US mergers & acquisitions announced so far in 2019](#)," June 2019

CDW: We Get Financial Services

Most financial services firms undergo a merger or acquisition only occasionally. When they do, it can help to have a trusted partner to turn to. CDW's solution architects have deep and broad experience helping organizations in the industry to integrate their IT environments. Currently, [CDW supports](#) 99 percent of top U.S. banks, more than 7,500 top U.S. capital markets firms and 55 percent of top U.S. credit unions.

CDW's experienced staff of solution architects and other engineers can help acquiring companies to assess, plan, deploy and manage technology integration initiatives. Among the services CDW offers:

Security assessments: CDW's information security teams can perform risk assessments, policy and procedure compliance reviews, and application assessments – all key components of due diligence during an M&A deal.

Software asset management: Through a Total Software Management solution, CDW can help companies to gain visibility into the existing software environments of all parties.

Project management and consulting: Consultative advisory services from CDW help with IT direction, process improvement, governance, cloud technology, IT operations and business continuity.

Managed services: CDW can help financial firms to manage their most complex infrastructure and applications with holistic, secure solutions that meet their needs and budgets.

The CDW Approach



ASSESS

Evaluate business objectives, technology environments, and processes; identify opportunities for performance improvements and cost savings.



DESIGN

Recommend relevant technologies and services, document technical architecture, deployment plans, "measures of success," budgets and timelines.



DEPLOY

Assist with product fulfillment, configuration, broad-scale implementation, integration and training.



MANAGE

Proactively monitor systems to ensure technology is running as intended and provide support when and how you need it.

Want to learn more about how CDW's solutions and services can help financial firms optimize their IT environments? Visit CDW.com/finance

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