CORE®

Post Merger Integration in the Financial Industry

IT Transformations in Post-Merger Situations – Ensuring Success by Focusing on the End Game

Julija Brull
Selina Großmann
Thomas Henschen
Christoph Kurtzmann
Fabian Meyer

October 2023
White Paper

Public

Key Facts

- The number of M&A transactions in the financial services sector grew significantly before the pandemic but is not expected to rebound amid the current challenging economic developments, especially in the distressed M&A sector.
- However, not every transaction can retrospectively be deemed a success. We find that success and failure are significantly determined by the post-merger integration phase, partly because IT and technology management represent a disproportionately large share of business success in banking.
- There is no "ideal" IT integration scenario; instead, it is essential to establish a clear objective that considers the "magic triangle" of synergies, speed of implementation, and required scope of modernization to determine the most suitable approach.
- Time pressure during a migration often correlates with the level of risk. However, successful integration primarily hinges on well-informed planning. Conducting thorough tech due diligence in the pre-deal phase and acquiring detailed knowledge of your own systems become key success factors in subsequent integration.
- Given the high time pressure and the frequent practice of granting authority to deal and finance experts rather than technology specialists in the pre-deal phase, it is imperative to re-examine the initially planned IT integration strategy in a technologically and organizationally sound manner before implementation.

1 Developments in the banking industry

The current state of the banking industry in Germany can indeed be described as challenging. Traditionally a cornerstone of both the economic system and society, it now finds itself undergoing significant transformations. Many sources predict substantial consolidation trends within the banking sector, which come with both opportunities and risks. In addition to the consolidation trend in the European region, we can observe a movement to withdraw from the North American region. This is underlined, for example, by the sale of the Canadian business of HSBC Holding Plcs to Royal Bank of Canada, at the end of last year.[1]

This trend is in line with rising concerns about a growing banking crisis in the U.S. after shares of several regional U.S. banks fell. The effects of a bank run are already being observed.[2] For example, following the significant drop in the share price of PacWest Bancorp, a U.S. regional bank, it is now reported that the company is in talks with potential partners and investors to explore strategic options, including a possible sale.[3] Furthermore, the acquisition of large parts of Silicon Valley Bank (SVB) by the regional bank First Citizens was already announced in March 2023. Due to concerns about the bank's stability, SVB clients had withdrawn large sums of money, contributing to the bank's instability.[4]

1.1 Traditional banks face a variety of attack vectors: traditional business models are under pressure

The COVID-19 pandemic, which has significantly impacted global events in recent years, has contributed to the trend of deglobalization alongside consolidation in various industries. Factors such as supply chain disruptions, both pandemic-related and due to challenges like the Suez Canal blockage caused by the container ship 'Ever Given,' as well as the ongoing Ukraine crisis, have led many companies to reconsider their expansion strategies and overall structuring.

Simultaneously, it appears that incremental efficiency gains in many places, such as from the dismantling of branch infrastructure, have been largely realized. Further challenges arise from increasing expenses related to legacy IT systems, as well as the need for immediate modernization projects to establish new business models (while these projects hold significant potential in the long term, they invariably incur substantial short-term costs).

Furthermore, the emergence of challengers from the tech sector has intensified pressure on traditional banks' business models. These new market entrants disrupt existing value creation processes by selectively fragmenting the value chain, often capturing profitable niches, or even gaining direct access to customers. Thanks to their strong customer focus and freedom from legacy technology constraints, they efficiently monetize the most valuable resource of our era: data. Without being subject to the limitations of legacy technology, this can be monetized in a variety of ways. The well-known examples here range from veterans such as the payment service provider PayPal to neo-banks such as Revolut and providers of banking-as-a-service platforms

[1] (Davis, Tse, & Foerster, 2022)
[2] (Fugmann, 2023)
[3] (Kummerfeld, 2023)
[4] (Dörner, 2023)

such as nCino, Solarisbank or Raisin bank. If you want to learn more about the industry's pressing challenges, you may wish to explore our insightful blog posts, for example: "IT Due Diligence in M&A Deals" and "Eat or Be Eaten".

1.2 The European banking sector is facing a wave of consolidation

The European banking sector is approaching the wave of consolidation that experts have been predicting for years. The ambition behind the consolidation projects is to restore the banks' profitability through sturdy growth in the face of falling margins in the traditional banking business. Due to its established market position in Germany, Commerzbank is seen as a potential acquisition target for its Italian competitor UniCredit (HypoVereinsbank) - even though these talks have been paused due to the Ukraine conflict.[5] A further takeover, which has long been speculated, has recently materialized: the takeover of Credit Suisse by UBS.[6] The crisis at Credit Suisse had been exacerbated by the collapse of the investment firms Greensill Capital and Archegos Capital and the challenges this posed for the bank. One consequence of the Greensill collapse was the freezing of investment fonds jointly operated with Credit Suisse, resulting in compensation payments for investors.[7] Moreover, Credit Suisse had granted several credit lines to the hedge fund Archegos Capital. The collapse of the hedge fund meant losses of several billion CHF for the bank. The Greensill incident alone is said to have cost almost CHF 3 billion in stock market value.[8] The incidents, along with their consequential damage to Credit Suisse's reputation, potential lawsuits from investors, and the outflow of customer funds, prompted the Swiss National Bank (SNB) to provide 50 billion CHF in liquidity support. Subsequently, these events also made Credit Suisse a takeover candidate for UBS.[9]

1.3 High Inflation and geopolitical tensions bring volatility to the market environment of Mergers & Acquisitions

In addition to these macroeconomic and internal structural challenges, geopolitical tensions and the sharp rise in global inflation are having an additional impact on the market environment, which was expressed last year in a sharp decline in transaction volumes; this was also reflected in the financial industry.[10] Several announced large deals fell through: among the most high-profile deals were UBS's planned acquisition of Wealthfront in the amount of 1.4 billion. USD[11] or the Bolt/Wyre deal[12] with a volume of 1.5 billion. USD, neither of which materialized.

[5] (Storbeck, Walker, & Sciorilli Borrelli, 2022)
[6] (Comfort, Foerster, Arons, & Pogkas, 2020); (Ohanian, 2016)
[7] (Blume, 2021)
[8] (Handelsblatt, 2021)
[9] (Bloomberg, 2023)
[10] (Sen & Barbaglia, 2022)
[11] (UBS, 2022)
[12] (Reuters, 2022)

The global IPO volume of the past year has also declined, which was significantly lower than in the same period of the previous year (70% lower), especially in the United States but also in Europe and EMEAs.[13] The chart below clearly shows why IPO volumes have suffered a sharp decline - the difference between market cap at the time of the IPO and today's much lower market cap (as of March 13, 2023) have affected confidence in startups and sent high IPO valuations plummeting.

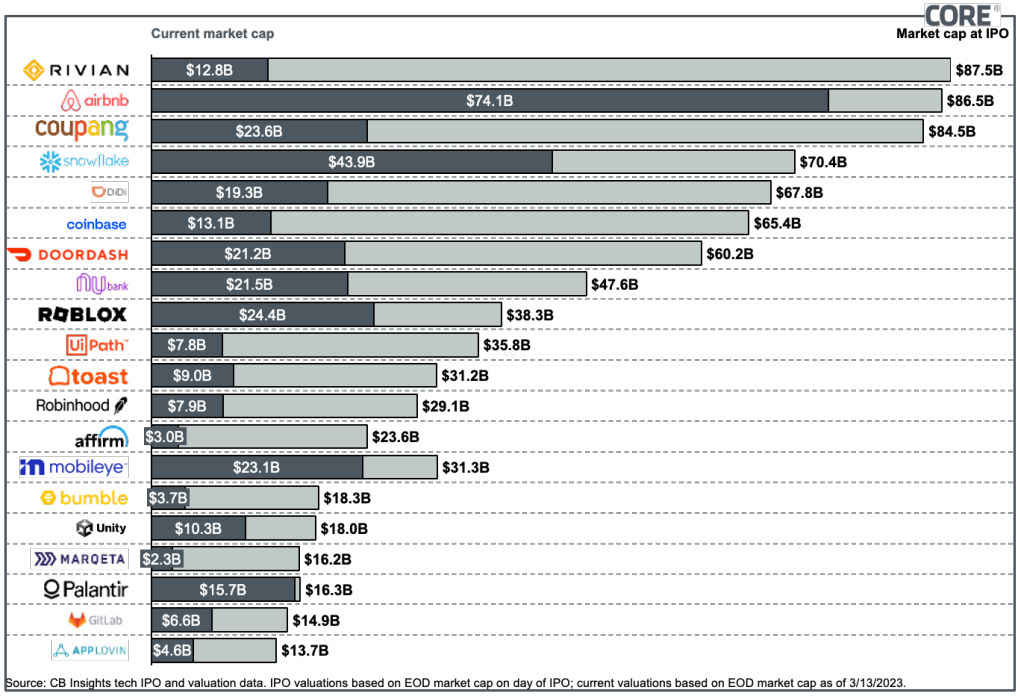

Figure 1: IPO volume and current market cap for start-ups

It can be observed that there has been an accumulation of investments over the past 12 months among major players in the market, including large banks. This accumulation is expected to positively impact transaction volumes in 2024. Coupled with the investment uncertainty caused by inflation in startups, these conditions create an ideal environment for legacy banks to acquire young startups. Such acquisitions would enable them to expand their product portfolios and modernize their technology stack. The situation is further facilitated by the bursting of the tech bubble early last year, leading to particularly low valuations of potential acquisition targets. This dynamic primarily affects decision-makers in startups, especially in the tech/fintech sector, who must become accustomed to these lower valuations.

[13] (Davis, Tse, & Foerster, 2022); (PWC, 2023)

1.4 A generalized view reveals a strong correlation between the overall economic development and the volume of M&A deals

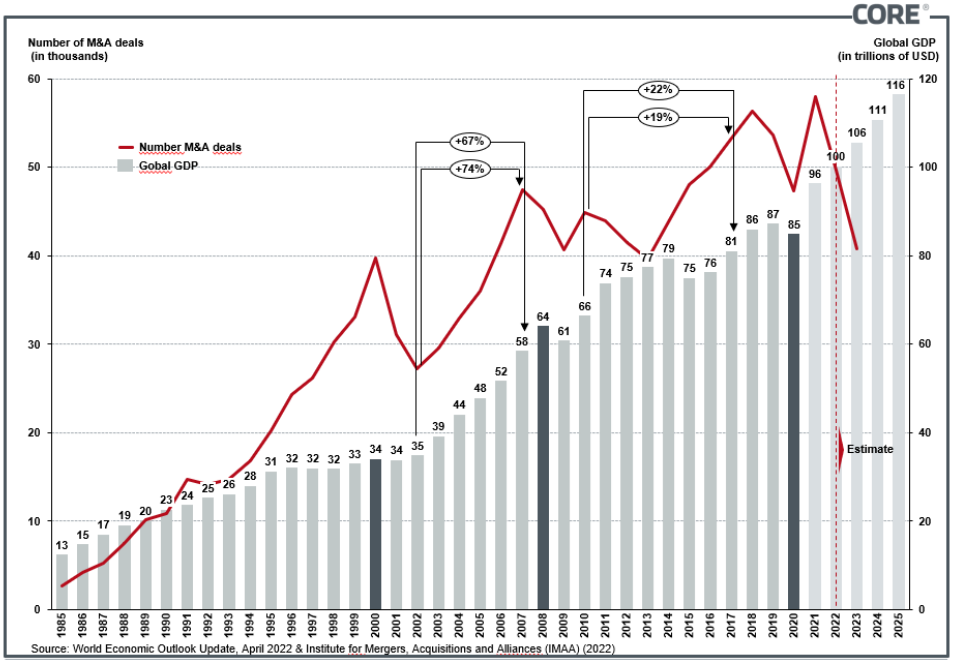

Figure 2: Relationship between GDP and the number of annual M&A deals

The graph illustrates the correlation between global Gross Domestic Product (GDP) developments and the annual number of M&A transactions. Significant crises are followed by notable increases in transaction volumes. After the bursting of the Dotcom bubble in 2000, it took two years for companies to recover financially, leading to a phase of substantial growth in M&A volumes. A similar pattern emerged in the aftermath of the global financial and economic crisis in 2008. Initially, increasing regulations hindered the financing of consolidation efforts. Between 2013 and 2020, the success of the expansive monetary policies of central banks became evident, and the number of corporate acquisitions rose sharply. Banks and governments once again focused on supporting the economy and its participants, and many researchers predicted significant economic recovery. In the meantime, the global economic system has managed to digest the consequences of the COVID-19 pandemic and return to the path of growth. Consequently, another boom in M&A transaction numbers would be expected, which was initially observed. However, the increasingly restrictive monetary policies of the world's major central banks have recently emerged as a significant hindrance.

Indeed, there is a correlation between the cost of capital and the prospects for frequently debt-financed or mezzanine-financed M&A transactions. The higher the debt service expenses, the greater the pressure on the protagonists of the M&A case to achieve short-term economic success. Consequently, it is advisable to take a closer look at the success factors of M&A transactions.

2 The post-merger phase as a vital component of every consolidation

The motivation behind mergers and acquisitions and the associated growth can be diverse. For instance, increasing competitive pressure in the increasingly complex and global economy can be a reason for wanting to expand one's competitive advantage in breadth and depth with the acquisition of complementary competencies. The acquisition of, or merger with other companies may, for example, result in the accelerated development of innovative technologies and products, promising synergies for both parties. Another factor may be the increase in market share of both parties involved. It is common for a competitor in the same industry to be taken over, as was the case, for example, with the merger of the French PSA Group from previously independent car manufacturers. There are also major consolidations to be observed time and again in the payments sector, such as most recently the purchase of Concardis by Bain Capital and Advent with a sale to Nets shortly thereafter, or the sale of SIX Payment Services in Switzerland to Worldline from France, which joins a series of acquisitions of European payment processors by Worldline. [14] There are plenty of reasons for mergers and acquisitions, and when you add the special features inherent in the European banking market (e.g., many market participants, some of them small, and customers tending to be conservative), the conditions are favorable.

2.1 Consolidations often fail to achieve the intended synergies, with inadequate attention to the post-merger phase being one of the decisive factors

However, it is striking that many acquisition projects are unable to meet the expectations placed on them or themselves in retrospect or can only do so on paper. Several sources put the share of failed mergers in all deals at approx. 80%.[15] In addition to unrealistic goals set during the pre-deal phase, failed integrations are primarily responsible. When focusing on integrations, several reasons for significant failures can be cited. These include, for example, insufficient attention to the corporate cultural differences between both deal parties or the fact that integration often takes more time and resources in practice than initially planned. As a result, the integration phase may be neglected or even abandoned. [16] Furthermore, there is a significant budget risk if planning deficiencies materialize, and unexpected cost drivers emerge during the integration process. These factors have a long-term negative impact on a company's success. One possible solution is to ensure, through comprehensive integration planning prior to signing, that the economic parameters of the acquisition can be adhered to.

2.2 M&A processes follow a structured but incomplete framework

Typically, M&A processes adhere to recurring patterns and sequences. These can be described as an idealized, three-part process, consisting of a strategic analysis and conception phase ("Pre-

[14] (Bloomberg, 2019)
[15] (Nahavandi & Malekzadeh, 1993); (Bruner, 2002)
[16] (Cf. M. I. Kotigala, 2017), “The possible reasons for the lack of improvement in M&A performance over the last few decades and the important role that the choice of integration strategy and the acquisition process can play on acquisition outcomes.”

Merger"), the phase of the actual transaction, and the concluding phase of integration or merger ("Post Merger").[17]

Phase 1: At the outset of any M&A endeavor, there is an analysis of the (acquiring) company's position. An examination of corporate objectives and the intrinsic potential to achieve them enables the identification of strategic gaps that are to be filled through acquisition. In addition to clarity about corporate goals and the corresponding disposition, it is necessary to analyze the competitive and acquisition environment to formulate forecasts about the market's future development and establish guidelines for selecting potential acquisition candidates. Ultimately, a clear definition of the specific goals associated with the transaction is needed, along with the conception of a strategy to ensure goal attainment.

Phase 2: Following the initial strategic analysis and identification of acquisition objectives, the M&A process enters the transaction phase. This phase often involves the engagement of investment banks or industry specialists to identify potential target companies. Contacts are established, and initial exploratory discussions take place. If mutual interest in a deal arises, a comprehensive company valuation is conducted, a purchase price is agreed upon, and various financing methods are explored. While different deal structures, such as "Reverse Auction" and "Management Buy-out," exist, we will not delve into them here. The phase continues with the formal signing of a Letter of Intent, often accompanied by confidentiality agreements. Subsequently, the crucial due diligence process commences, providing the foundation for contract negotiations leading up to the final signing of agreements. The transaction phase culminates once all contractual and legal conditions, including mandatory antitrust or investment control reviews, are met, and the transfer of shares or assets is executed during the closing.

For more details on the success factors of the first two phases of an M&A process, see our blog post "Eat or be eaten".

Phase 3: The third phase in the M&A process, known as the integration phase, is dedicated to delivering the expected outcomes that justified the execution of the transaction. The primary objectives include achieving growth and capitalizing on synergies. This phase encompasses well-structured integration planning, the execution of integration activities, and a post-merger audit aimed at measuring goal achievement.

It is worth noting that, in practice, the transitions between the three M&A phases are often fluid, requiring parallel management. While parties involved should maintain a competitive stance until they receive regulatory clearance (a phase that frequently spans several months between signing and closing), they can begin sharing non-competition-sensitive information early in the process. Successful outcomes of horizontal mergers, in particular, heavily rely on efficient integration. Therefore, initiating integration planning early and continually reviewing progress is crucial, and we will explore this in more detail below.

[17] (Jansen, 2016)

2.3 The "IT integration" aspect in Post-Merger Integration (PMI) is often underestimated as a critical factor for a successful integration and the achievement of financial goals

Drawing from our extensive experience in executing integration projects for clients within the banking and insurance sectors, we've observed that the integration of IT systems is frequently initially viewed at a high-level, with the assumption that detailed planning and design can be deferred to a later stage. This tendency can be attributed to a lack of prioritization or understanding. The desire for effective internal and external communication carries the risk of explicitly stating objectives that, upon closer examination of the technically crucial factors for success, may later prove to be unattainable or impractical. If initial feasibility assessments are based on incorrect goals or framework parameters, they can still form the basis for rudimentary integration planning as the project progresses.

Additionally, most acquisitions are not solely funded with cash; third parties, in the form of equity and/or debt providers, usually play a vital role. The appeal of the business case presented to these third parties is heavily influenced by synergy assumptions. This creates a significant conflict of interest: it is crucial to objectively evaluate and quantify actual project risks, while the completion of the deal, often driven by not only medium-term financial objectives, hinges on the anticipation of substantial synergies. In many areas of a company, it is acceptable to rely on experience and assumptions for forecasting purposes. However, this practice does not extend to IT. The risk of exponentially rising implementation costs due to an incomplete preliminary examination and planning process is considerable in the realm of IT.

To counteract this, it is recommended to initiate the integration phase as early as possible and with the involvement of relevant experts throughout the entire process, rather than waiting until the signing. This includes a thorough analysis of the technological starting conditions in both participating companies, the selection of the appropriate (IT) integration approach (more on this in the later-presented framework), and detailed planning of the integration project. It is crucial to involve specialized experts early on. Likewise, the planning created in this process should be thoroughly reviewed just before the actual integration implementation begins. Changes resulting from the time that has elapsed or from new insights after the removal of the "Chinese Walls" must be considered at this stage.

2.4 Challenges using the example of the consolidation of two banks

The post-merger project experience described below is intended to serve as an example of the theoretical concepts discussed here and to illustrate them in practice.
This involved the merger of two European financial institutions that offered similar and, in some cases, complementary product portfolios. After the legal merger of both institutions, the next goal was to realize synergies. This process required consideration of not only customer segments, product portfolios, and the strategic alignment of both institutions but also how to deal with the two legacy systems. Early considerations favored a Greenfield approach in which new, innovative functionalities would be built on a cost-effective and modern architecture. Upon completion,

customer data would be transferred from the existing, to-be-retired system. However, due to the high resource requirements (personnel and investment) and cost-saving goals imposed by the board, this approach was later put on hold. As the project progressed, a new migration strategy was adopted: a phased migration. Under this strategy, new products for each domain (a kind of framework aligned with a company's business, containing functionalities specific to a product area) would be developed on the new platform. Simultaneously, these new products would relate to the existing domains on the "old" platform, which still carried products that had not yet been migrated, as well as the corresponding customer data.

In the present case, the change in the integration strategy led to a stronger focus on cost reduction and revenue enhancement through the consolidation of IT legacy systems. Since even a phased migration would not have achieved the required cost savings within the given timeframe, a stricter and less time-intensive integration scenario was chosen. This scenario, with a shorter duration, could demonstrate the highest cost synergies.[18] Therefore, the decision was made to opt for the so-called "Forced Migration." In this approach, the data from the IT legacy system of one company is typically migrated to the (legacy) system of the other company. Often, a kind of migration platform is installed as an "intermediary" between the two systems, which takes care of extracting, transferring, mapping, and uploading data to the target system. The advantage of this method is that it is quick to implement. It also limits the complexity level in a way that the continued operation of a legacy system protects one of the partners from service interruptions. In this example, the decision was made to migrate to the already more complex (and older) one of the two legacy systems, as this did not introduce "new" complexity into the other legacy system. In other words, the target system replicated all the complexities of the original system; the reverse would not have been the case. Simultaneously, analyses showed that this approach, taking all investments into account, could achieve a faster positive cost synergy case.

As will become evident from the in-depth descriptions of various migration approaches that follow, these specific challenges are transferable to other migration projects. Accordingly, it becomes clear how important it is to define the migration goals holistically and ex ante to prevent potential sunk costs and not jeopardize the timing of integration (and the associated realization of synergies).

These challenges can be addressed with a comprehensive approach. The CORE Post Merger IT Integration Framework (PMITI) ensures that no dimension in the planning and selection of the integration scenario is overlooked. It clarifies which factors play a crucial role in choosing options for strategic IT integration, which options are available, and how an optimal strategic fit can be achieved.

[18] A prevalent challenge with Greenfield approaches is the typically long duration between the start of the initiative and the realization of the expected results. The more complex the solution to be developed, the longer the development, testing, and rollout process.

3 CORE post-merger IT integration framework

The CORE PMITI Framework provides a way to address the mentioned challenges. It combines various best practices from years of experience with well-founded theoretical knowledge. The core of the model consists of three phases: "Plan," "Execute," and "Control."

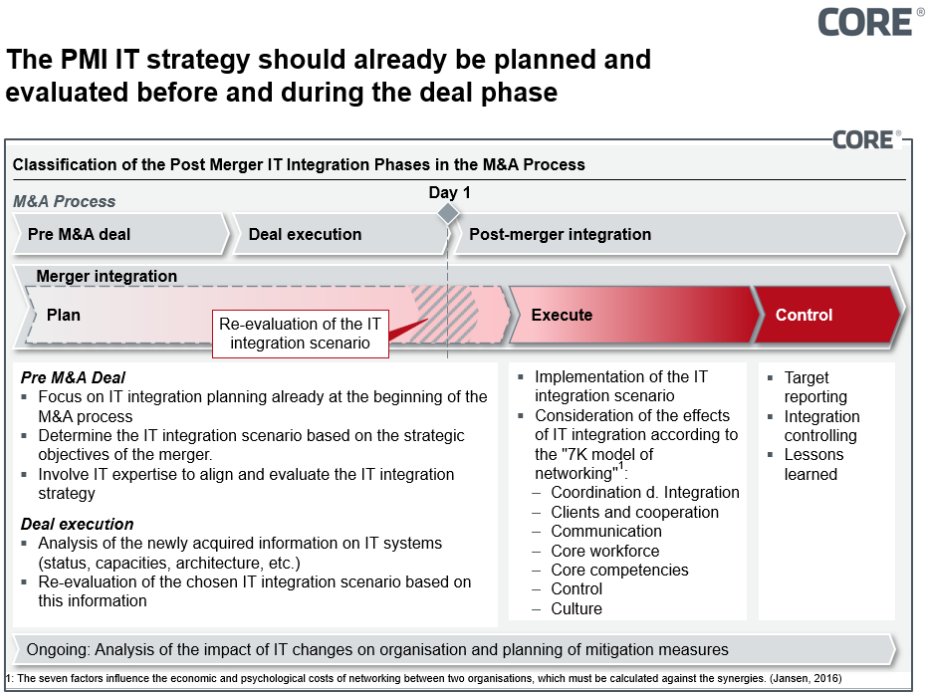

Figure 3: Post-merger integration phases

3.1 CORE PMITI (Post Merger IT Integration) Process

The 'Plan' phase of the merger integration process is unique because it commences in parallel with the pre-deal phase (Phase 1, as previously explained). This approach offers the advantage of initiating IT integration planning early, allowing for the consideration of integration goals and scenarios, even if they are not yet finalized.

When integration planning begins during the pre-deal phase, it's crucial to consider antitrust implications. Until the relevant antitrust authority grants approval, all involved parties must maintain a competitive posture. They can engage in discussions about general topics, such as systems used and approaches, but they must avoid discussing matters that could provide a competitive advantage. This becomes more challenging in our increasingly digital world, where digital systems and processes often become differentiating factors for companies. Nonetheless, the principle remains the same: without coordination, integration (planning) cannot proceed. In cases where IT is a core and competitively relevant component, a 'Clean Team' is often formed. This team includes employees from all participating companies who are relieved of their regular duties and gain insights into each other's competition-relevant processes. However, if the deal falls through, reintegrating these employees into their usual roles may not be straightforward. The use of an external trusted advisor, capable of acting as a neutral entity between competitors, is

recommended for two main reasons: they have greater experience in the unique situation of a merger, and they can reduce temporary knowledge loss in case antitrust approval is not granted. In addition to competition analysis and market forecasting, which are typically carried out by investment banks or specialists in the respective field, early involvement of IT experts is promising. They assist in assessing in detail how IT integration can support the strategic goals of the merger and identify IT integration-related risks from the outset.

Once the deal enters the phase of deal execution, the information spectrum of both parties expands, and the current states of the IT landscapes can be made transparent, subject to antitrust limitations.

For IT integration, this means that the planning phase has reached the "re-evaluation" stage. The current analysis and strategic planning can be conducted in more detail, allowing the previously considered integration concepts to be re-evaluated. This reassessment may lead to a different choice of integration scenario.

The planning and re-evaluation of the IT integration strategy extend into the initial stages of the post-merger phase of the deal, focusing on the concretization and operationalization of IT integration.

Once the project is planned, and the necessary parties and resources, such as IT consolidation specialists, are involved, the Execute Phase for post-merger integration begins. In terms of duration, this phase can take several years, depending on the chosen integration scenario and the available time. However, this timeframe depends on numerous factors, such as the state of the IT systems of both deal partners and the amount of data to be consolidated. Other factors underlying the choice of an IT integration scenario will be discussed in more detail in the next chapter.

During the Execute Phase, the ratio of actual synergy generated to effort expended is negotiated. Therefore, the success of the “**Execute” phase** is linked to the overall evaluation of the merger project: if significant synergies can be realized with manageable effort, the evaluation tends to be positive. However, if significant effort is expended, and the savings fall short of expectations, this will have a correspondingly negative impact on the overall project evaluation. Effective management of integration and the associated transformation is critical for the overall assessment of the merger.

After the completion of the integration, the “**Control” phase** follows, and in the case of a successful integration, the maintenance phase. It typically begins with reporting on the initially planned integration goals. Insights gained during the goal evaluation are considered in the new Run the Business (RtB) state. Experiences gained during the transition from change/integration to the new as-is state can also qualitatively influence the assessment. To ensure a smooth transition, it is important to discuss which insights should be institutionalized and which aspects should be subject to re-evaluation.

3.2 A number of criteria have an impact on IT integration and should be considered when choosing the integration scenario

As previously explained, there is no one-size-fits-all integration scenario. What matters most is considering relevant criteria to assess options and identify potential risks early in the process.

In many industries, particularly in banking and insurance, IT systems serve as the foundation for all customer interactions and services. The future success of most companies is closely tied to the state of their IT infrastructure. This is evident in their ability to adapt products and processes to changing customer needs and to remain responsive to regulatory adjustments, among other factors. Therefore, it is crucial to conduct a thorough and critical evaluation of the system integration solution space and allocate the necessary resources accordingly.

What criteria should be considered during the PMI phase?

Business Model Compliance

In the context of IT integration following an M&A deal, the goals of the merger itself play a crucial role. The motivation behind the merger can influence the business and strategic direction of the parties involved, subsequently affecting the integration objectives. If the acquired company is intended to function as a subsidiary solely to expand the brand portfolio, there might be no need for a consolidation of systems. However, if the goal is to create an alliance between the companies and their organizational structures, such as mutual enhancement through vertical or horizontal competence expansion, evaluating the value of operating a single IT system as the foundation of business activities becomes essential. In the case of a merger with a financially distressed competitor, it typically makes sense to reduce costs related to operating a second system. The envisioned branding strategy of both parties can also impact the design of the integration project. In the practical example mentioned earlier, the goal was to achieve cost savings while preserving the separate external perception of both companies. These requirements were met by consolidating the systems while considering IT architectural implications and adjusting the product strategy. This was achieved by simplifying the product portfolio of the secondary brand within the target system.
Three criteria have significant implications for the vision, approach, and transformation efforts in exploring potential integration scenarios. These criteria will be discussed in more detail.

IT-Architecture

When deciding to consolidate the systems of the companies involved, several aspects related to IT architecture need to be examined and integrated into the choice of the integration scenario. This includes capturing both functional and non-functional requirements for the target system and conducting an in-depth analysis of the current system's status. When evaluating the current systems, factors such as performance should be determined and compared against the performance requirements of the target system. For instance, if the performance of a current system is limited and cannot be sustainably improved even through partial component modernization, it may be advisable to avoid a forced migration to that system. Criteria for selecting a suitable target system might include better technological currency (up-to-date tech stacks and technological paradigms) and adequate migration capabilities to accommodate the data from the other system as well as processing and storing data.

One crucial consideration when consolidating systems is the assessment of their integrability. Achieving complete integration is often challenging because systems may not readily "communicate" due to differences in age and complexity. Handling data storage, retrieval, and

processing correctly can also be a challenge. This aspect can be a disqualifying criterion for integration scenarios that do not involve building a new shared system (Greenfield).

In the case under discussion, the choice of the target system for forced migration was a critical decision. An "interlocking" of both IT landscapes was not technically feasible without significant effort and was not cost-efficient in operation. The IT architectures of both banks varied in their degree of obsolescence. Therefore, the primary focus was on selecting a target system that offered more potential for technical performance and complexity absorption and had the migration capacity to accommodate the data volume from the other system.

Personnel expenses

The consolidation of IT systems is a complex endeavor that is not easy to achieve, both on the technical and organizational level. Organizational change should be structured and well-planned to minimize disruption to the daily work of employees. However, all personnel engaged in the core functions of the company will be affected by the process and should be actively involved to maintain the operational perspective and support the target vision from both organizations during the transformation. Establishing transparent communication and decision-making processes that are as short as necessary but as long as required is crucial. The effective design of collaboration, including how requirements from different entities can be logically bundled and prioritized, is further discussed in the blog post "Network Collaboration." Actively involving business units also means that a sufficient number of resources should be made available, which may result in deprioritizing other ongoing projects or involving external service providers. If this is not feasible, the duration of the IT integration process will significantly increase, and synergies may only be realized later in the process.

For our example, a specific task force should have been established for the IT integration project, which included interdisciplinary expertise and provided individual training opportunities for the "new" platform, along with sufficient room for co-design.

Impact on end customers

The consideration of the implications that system adjustments have on a company's end customers is one of the most crucial dimensions and can take on different forms. One seemingly positive option is that the customer barely notices the change in systems, meaning that customer-facing functions regarding process flow and duration largely remain unchanged or are even simplified and improved. This option creates the impression that customer attrition and negative user experiences don't arise, and this is an ideal situation to aim for. However, customers naturally have rising expectations for available functionalities. Without continuous product improvement, which can be easily neglected during the transformation due to resource constraints, there's a risk that customers will seek out more attractive offerings from competitors.

On the contrary, if customers experience impacts on their usage during or after the transformation, this can either positively or negatively affect their experience. The expansion of the product offering or features within a product can be realized as a result of the improved performance of the new system. This could also enhance communication with the customer by opening up new (online) channels, for instance, for contract signing. Depending on the success of system integration, these examples can certainly take a negative turn, leading to product removal,

temporary feature reduction, or even less use of communication channels. These aspects should be examined for the respective target audience within the context of a long-term strategy, considering financial implications and available resources.

The mentioned example involved the concurrent development and introduction of a new banking product alongside an upcoming migration. In this case, it was crucial to ensure transparent communication with a clear emphasis on the new benefits for customers.

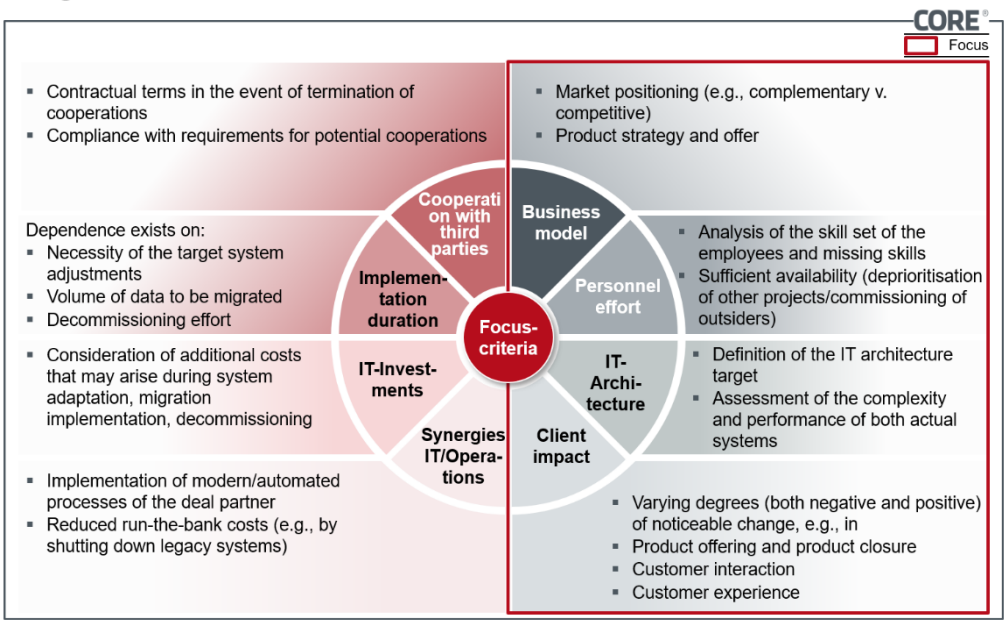

Figure 4: Focus criteria to consider when choosing the IT integration scenario

In this complex framework of interrelated criteria, the emphasis is primarily on weighing prioritized aspects rather than making a simple "right or wrong" decision. A transformation should be well-planned and offers little room for trying out different approaches – the initial approach should be chosen thoughtfully to avoid extended integration timelines and costs later on.

Based on the strategic objectives defined for post-merger integration, different technical integration scenarios need to be considered, which will be explored in more detail below. Here, five options for handling (non-)integration of IT systems in the context of M&A activities are described as examples. A clear and persistent mapping of integration scenarios to migration approaches cannot be established – each scenario reflects its own pros and cons for migration. The applied criteria should serve as a support for management to focus on the right core issues during the evaluation process.

IT integration scenarios

Forced Migration

Forced Migration is an integration scenario designed to achieve significant synergies in a relatively short timeframe. In this approach, one of the existing systems and its entire customer record is migrated to the other system, before being shut down. This results in running only one system in the target state, and the cost savings due to decommissioning the legacy system can be used for product or system modernization after the migration is completed. The central

question here is the choice of the target system. Ideally, the receiving system should be the more modern of the two to ensure sustainable performance and keep costs low for further modernization. This may require adjustments to the products from both sides in terms of functional requirements, which necessitates a high level of trust from customers, as aspects such as investment characteristics or loan terms might need to be adapted.

Data migration is at the core of this transformation: determining the sequence of data batches to be migrated requires strategic decisions. In the presented use case, there was a consideration between two variants: migrating data in a logical order, where individual domains are migrated one after another (along with their associated customer data, e.g., starting with all securities-related functionalities and customers with holdings, securities, etc.). This allows for starting with domains that are the most cost-intensive in the old system to quickly realize savings. The other variant involved migrating data by customer groups, for example, starting with those who use the fewest banking products (like a personal account without additional services) and progressing to customers with two or more products in use. The latter carries the risk that some functional features may not yet be fully operational on the new (receiving) system, and there may be a temporary need to maintain some functionalities on the old system.

The risk associated with this latter approach should not be underestimated. If it turns out during the implementation of the Forced Migration that the receiving system does not fully or adequately replicate all the functionalities of the sending system, it can lead to significant complications. Experience shows that cases exist, where the efficiency losses from migration more than exceeded the cost savings from system shutdown. Therefore, Forced Migration is a high-stakes model with a potentially high return. Precise planning and understanding the inherent risks of this method are key to success.

Coexistence

In the Coexistence Scenario, little to no changes are made to the involved IT systems. The focus is on merging the two companies into an economic and legal entity, while they continue to operate separately in the external environment. Essentially, the systems remain unchanged. Minimal adjustments, such as implementing interfaces between the systems to facilitate data exchange, if necessary, might be considered. Implementing this scenario requires very little time but does not yield significant synergies. The costs remain the same as they were before the merger because both systems continue to operate in parallel.

Best of breed

In the "Best of Breed" variant, the goal is to combine the strengths of both systems to create the best possible version without the need for a new system. However, a decision must still be made on which receiving system will host all services/features. Similar functions from both companies need to be evaluated to determine which one is superior. To ensure an objective evaluation, criteria should be defined in advance. These criteria may include ongoing costs, degree of customer usage, functionality, effort required for changes, and more.

One might assume that this is the easiest way to approach migration without losing advanced features. The misconception here is that many systems with a certain age are often built as monolithic systems and lack a microservices architecture, where individual components can be

"plugged in and out." This complicates the adoption of individual services within the system, as they must exhibit high compatibility with the receiving system, which is rarely the case in practice.

Greenfield

The Greenfield approach involves building a new system that offers the opportunity to use modern technologies and improve data storage, processing, and customer interactions. The data from both legacy systems is migrated to the new system either during or partially during its implementation. The migration can be done gradually or all at once (through "Big Bang" implementations).

The advantages compared to maintaining a legacy system are clear. The new system can accommodate the requirements of both parties, so functionalities do not need to be dropped due to system limitations. An evaluation of what changes should be made to existing products and the extent of data cleansing required should be assumed.

The complexity of the new system can be reduced compared to the legacy systems by replacing historically grown monoliths with microservices architectures. A modular structure by domains would be an option to facilitate future modernization efforts of the system with reduced time and financial costs. This approach avoids technical debt, which often requires increased resources and specialized knowledge, which may no longer be available in the organization.

This systemic "reset" requires significant support from the organization. The synergy potential is maximized in this approach, but it requires patience, as Greenfield can take a considerable amount of time to complete and may incur higher one-off costs.

The "Greenfield stepwise" approach first involves migrating one legacy system to the other. This can be seen as another form of a forced migration. This process essentially maps a single platform from the "old" world, which is then migrated to the newly configured "Greenfield" system. In practice, this involves two migrations, which are very time-consuming. The harmonization of requirements must therefore occur twice, albeit to varying degrees. The risk in this stepwise approach is lower than in the "Big Bang" approach because time is not a critical factor. During the first migration of the old systems, the new system can already be built, and learnings from the first migration can be partially applied to the second migration. However, it should be noted that every migration can have implications for customers (e.g., temporary access restrictions to accounts).

Greenfield 2 Big Bangs

This approach involves the direct migration of both legacy systems to the new system, with these two migrations happening sequentially to distribute the load on the new system. Customer data should be seamlessly and almost imperceptibly migrated to the new platform in batches.

The prerequisite for this approach is that the new platform has already been implemented and is capable of processing the data volume in the shortest time possible. However, the rapid approach also comes with particular risks. Even a single "Big Bang" has significant pitfalls. Questions arise about whether the system can handle peak loads, whether the integration of databases will proceed as planned, and whether data record integrity can be ensured. In addition, the second "Big Bang" is not comparable to the first. Data porting in this scenario does not take place in an "empty" Greenfield system; instead, it needs to be integrated into existing data structures.

Therefore, this approach incurs two significant risks in quick succession. First, there are the risks of a "classic Big Bang," followed rapidly by the additional risks of a forced migration (see above). The significant advantage of this method is that the migration can be executed quickly and often below the customer's perception threshold. However, due to the considerable risks involved, particular attention must be paid to excellent planning and guidance by an experienced partner.

The IT Integration Framework offers an overview as well as recommendations for action when choosing the appropriate integration scenario.

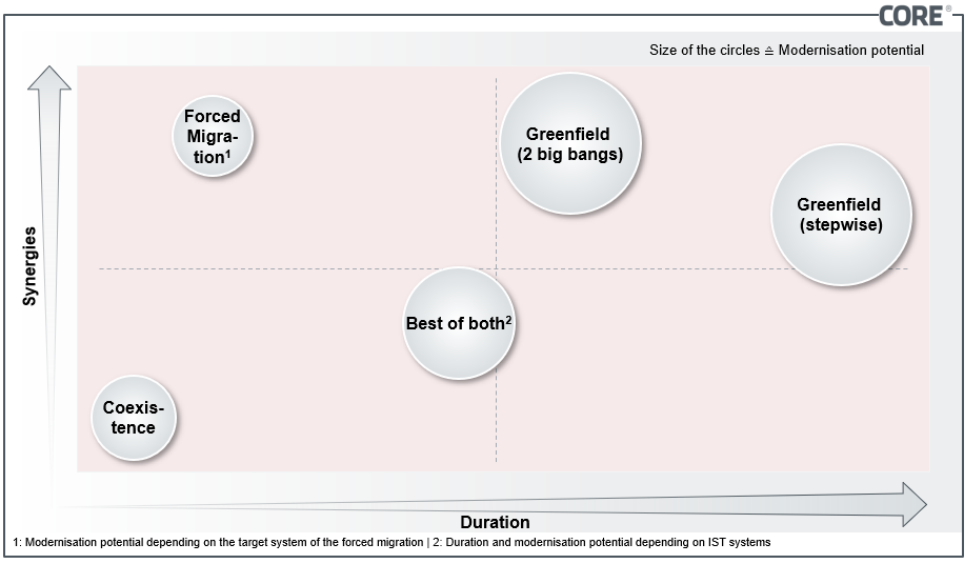

Figure 5: Post Merger IT Integration Framework

The discussions demonstrate that the post-merger integration phase is critical for the success or failure of an M&A project. Within this phase, it is primarily the IT department that wields one of the most significant levers for success or failure. Besides the upside potential of a successful transformation, the high complexity of integration entails significant risk. As a result, the early involvement of PMI measures and technology experts in the deal phases is one of the keys to realizing the potential. Given the technical complexity of integration scenarios, there is no one-size-fits-all solution in this context. Therefore, there can be no simple answer in the concluding remarks. The adage "It depends..." holds true once again in the face of the technical complexity of integration scenarios.

The project experiences of recent decades have shown that the strategic objectives of the deal are crucial for the PMI strategy, and these objectives can only materialize if the PMI strategy is chosen appropriately, professionally planned, and rigorously implemented. Acquisition decisions are typically prepared at the highest management level, and many conflicting considerations are factored into the preparation. For example, financing for the entire project, including the PMI phase, must be ensured. Our experience shows that the calculation of synergy potential to justify an acquisition project often cannot and should not rely solely on scientific and financial mathematical methods. This approach can become problematic during the integration phase: if unforeseen challenges arise during integration (for example, the functionalities of the respective

IT systems are more different than initially assumed), this inevitably leads to delays in realizing the cost savings. Especially in cases of significant deviations from the plan, this can strain the financing of the deal. IT integration has proven to be particularly critical in this regard: deviations from the planned project scope can result in high costs (for software licenses, modifications, etc.).

4 Final consideration

M&A deals are significant milestones in the lifecycle of a company. Especially when the deal volume is significant relative to the size of the company or its cash reserves, the question of the deal's success becomes a matter of life and death. We find that the success of a deal is not solely determined in the well-observed pre-closing phases but that the post-merger integration phase plays a crucial role in the long-term evaluation of deal success.

Therefore, when post-merger integration is incorporated into the planning of the merger at the beginning of the deal, and IT is assigned the central and critical role it deserves as a driver of costs, synergies, and innovation, realistic assumptions about the potential of M&A deals can be made, and negative surprises can be prevented.

This includes avoiding costly decisions for different integration scenarios during the transaction or even the actual integration phase. What's inherently important is that the integration's goal is already formulated in the deal hypothesis and aligned with the business objectives. To do this, the range of options for possible integration scenarios must be understood to effectively manage the planning and implementation process, even if adjustments to the plan must be made during the transaction and subsequent integration.

With the help of a holistic view of transactions, involving the perspectives of management, IT, and M&A experts and taking them into account, the likelihood of successful deals increases significantly. These interdisciplinary decisions allow companies to identify, evaluate, and weigh the relevant criteria for integration and determine which integration scenario complements the strategic motivations of the acquisition or merger.

Sources

Fugmann, M. (2023). *Banking crisis: US regional banks crash*. Retrieved July 12, 2023, from Financial Market World: https://finanzmarktwelt.de/bankenkrise-us-regionalbanken-stuerzen-ab-269364/

Kummerfeld, C. (2023). *PacWest Bancorp creates large asset sale*. Retrieved July 12, 2023, from Financial Market World: https://finanzmarktwelt.en/pacwest-bancorp-sale-of-assets-273278/

Dörner, A. (2023). *Regional bank First Citizens buys large parts of Silicon Valley Bank*. Retrieved July 12, 2023, from Handelsblatt: https://www.tradeblatt.com/finance/bank-insurance/banking-crisis-regional-bank-first-citizens-buy-big-parts-of-silicon-valley-bank/29060444.html

Sen, A., & Barbaglia, P. (2022). *Dealmakers brace for slow 2023 recovery after global M&A sinks*. Retrieved July 12, 2023, from Reuters: https://www.reuters.com/markets/deals/dealmakers-brace-slow-2023-recovery-after-global-ma-sinks-2022-12-21/

Davis, M. F., Tse, C., & Foerster, J.-H. (2022). *Dealmaking Slips by Almost a Third in 2022 Marked by Volatility, Inflation*. Retrieved July 12, 2023, from Bloomberg: https://www.bloomberg.com/news/articles/2022-12-21/dealmaking-falls-by-30-in-2022-as-inflation-volatility-hit-m-a-volumes

PWC. (2023). *Q1 2023 overview*. Retrieved July 12, 2023, from PWC: https://www.pwc.com/gx/en/services/audit-assurance/ipo-centre/global-ipo-watch.html

Comfort, N., Foerster, J.-H., Arons, S., & Pogkas, D. (2020). *Europe´s Embattled Banks Look to Mergers as Way Out of Malaise*. Retrieved July 12, 2023, from Bloomberg: https://www.bloomberg.com/graphics/2020-european-banks-mergers-acquisitions/

Ohanian, M. (2016). *Expert: Credit Suisse must protect itself from takeover*. Retrieved July 12, 2023, from Handelszeitung: https://www.trade paper.ch/companies/expert-credit-suisse-must-protect-itself-from-takeover-1135215

Storbeck, O., Walker, O., & Sciorilli Borrelli, S. (2022). *UniCredit and Commerzbank merger talks derailed by Ukraine war*. Retrieved July 12, 2023, from Financial Times: https://www.ft.com/content/c445dcdd-b2e5-4120-afb8-bf44612e5715

Blume, J. (2021). *Credit Suisse Burns 4.4 Billion Francs in Archegos Bankruptcy - Large-Scale Management Shakeup*. Retrieved July 12, 2023, from Handelsblatt: https://www.tradeblatt.com/finanzen/banken-versicherungen/banken/schweizer-grossbank-credit-suisse-verbrennt-bei-archegos-pleite-4-4-milliarden-franken-gross-angelegter-umbau-im-management/27069504.html

Handelsblatt. (2021). *Credit Suisse sounding out compensation in Greensill affair*. Retrieved July 12, 2023, from Handelsblatt: https://www.tradeblatt.com/finance/bank-insurance/banks/big-bank-credit-suisse-lotet-in-greensill-affaere-entschaedigung-aus/27042158.html?ticket=ST-123644-5BoRHCgkqaDnMj2llvjo-ap6

Nahavandi, A., & Malekzadeh, A. R. (1993). *Organizational culture in the management of mergers.* Westport: Quorum Books.

Bruner, R. F. (2002). Does M & A pay? A Survey of Evidence for the Decision-maker. *Journal of Applied Finance*, 48-69.

Jansen, S. A. (2016). *Mergers & Acquisitions. Corporate acquisitions and collaborations. A strategic, organizational, and capital market theory introduction.* Wiesbaden: Springer Fachmedien Wiesbaden GmbH.

UBS Americas Inc . (02. 09 2022). *UBS and Wealthfront mutually agree to terminate merger agreement* . Von UBS Investor Relations: https://www.ubs.com/global/de/investor-relations/press-releases/overview-news-display-ndp/en-20220902-wealthfront.html retrieved

Bloomberg. (2019). Retrieved August 12, 2023 from Advent and Bain Score Payouts After Sparking Payments Deals: https://www.bloomberg.com/news/articles/2019-03-19/advent-and-bain-score-payouts-after-sparking-payments-deals#xj4y7vzkg

Bloomberg. (2023). Retrieved August 15, 2023, from Credit Suisse receives 50 billion central bank francs - stock rises: https://www.bloomberg.com/news/articles/2023-03-16/credit-suisse-retains-up-to-50-billion-franc-central-bank#xj4y7vzkg

Reuters. (2022). *Reuters US Markets.* Retrieved August 12, 2023, from, Payments company Bolt scraps $1.5 billion deal to buy crypto firm Wyre: https://www.reuters.com/markets/us/payments-company-bolt-scraps-15-bln-deal-buy-crypto-firm-wyre-2022-09-10/

List of figures

Authors

Julija Brull is a Senior Transformation Manager at CORE. She holds a master's degree in management from the University of St. Andrews. With several years of consulting experience in the technology sector, her areas of expertise encompass IT strategy, organizational development and transformations, as well as information security. Julija's experience includes numerous projects in the banking sector, such as assisting in IT system migrations for two major banks during the post-merger integration phase, conducting IT architecture reviews, and developing IT strategies.

Mail: julija.brull@core.se

Selina Großmann is a Transformation Manager at CORE. She holds a Master of Arts degree in Business Management from the University of St. Gallen. Her focus areas include agile organizational structures, risk assessment, and financial evaluation of IT transformations. Her experience is based on various projects, including the implementation of a trade regulation solution for an international financial services provider, creating a Target Operating Model (TOM) and Modus Operandi for an IT service provider in the financial sector, and a core banking transformation for an established vehicle financing bank.

Mail: selina.grossmann@core.se

Thomas Henschen is a Transformation Director at CORE. He holds a Specialized Executive master's in business Consulting from ESCP Paris. His experience includes various projects such as implementing an SAP HCM system as part of a post-merger integration, leading strategic projects for the introduction of a new core banking system and surrounding systems for a European manufacturer-based automotive bank, and conducting system architecture reviews, including for a globally operating specialty and reinsurance company in the context of changing strategic requirements.

Mail: thomas.henschen@core.se

Christoph Kurtzmann is a Transformation Director at CORE. As an industrial psychologist, Christoph supports extensive organizational change processes. At CORE, he primarily focuses on clients in the financial sector and the insurance industry, helping with the implementation of complex IT transformations, jointly developing solutions for successful implementation, and advising clients in challenging M&A activities. In recent years, numerous transactions in the financial sector have been part of his projects, which he has accompanied throughout the entire deal lifecycle.

Mail: christoph.kurtzmann@core.se

Fabian Meyer is Managing Partner at CORE and is responsible for international business development and the implementation of complex IT projects, with a focus on digitalization projects in the banking sector. He has several years of consulting experience in the banking sector and transformation technology. Fabian supports a multitude of clients in the financial industry in strategy development, the design and implementation of M&A projects, as well as complex transformation projects.

Mail: fabian.meyer@core.se

About COREresearch

As an independent technology think tank, we investigate the systematics of technology-driven transformations in industries with a high degree of IT involved in the value creation process. As part of our research activities, we analyze markets and technologies, address the structures, causes and mechanisms of technological change and curate results for clients and the public. Furthermore, we make available selected results of our interdisciplinary research in the form of comprehensive publications, case studies as well as lectures to a broader section of the public.

Disclaimer

COREtransform GmbH
Am Sandwerder 21-23
14109 Berlin | Germany
https://core.se/
Phone: +49 30 263 440 20
office@core.se

COREtransform GmbH
Limmatquai 1
8001 Zürich | Helvetia
https://core.se/
Phone: +41 44 261 0143
office@core.se

COREtransform Ltd.
9 Devonshire Square, 5th Floor
London EC2 4YF
Great Britain
https://core.se/
Phone: +44 20 328 563 61
office@core.se

COREtransform Consulting MEA Ltd.
DIFC – 105, Currency
House, Tower 1
P.O. Box 506656
Dubai I UAE Emirates
https://core.se/
Phone: +97 14 323 0633
office@core.se

