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M&A in 2022

FOUR TRENDS BANKS SHOULD WATCH AND PREPARE FOR

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The banking industry is seeing a growing wave of **mergers and acquisitions (M&As).**

Fifty billion dollars of M&A deals were announced in the United States in the first 10 months of 2021 alone (a figure not reached since 2007).[1] Many industry observers expect this rapid consolidation rate to continue.

In addition to factors such as pandemic-related pent-up demand and a desire by banks to diversify into profitable non-interest income streams, this merger wave is propelled by an imperative to support rapidly changing client needs and to embrace (and invest in) increasingly digital engagement patterns.

We can expect to see these records continue to be challenged and even broken in 2022 for many reasons.

- **Desire to diversify income streams.** Banks want more treasury management business.
- **Increased digital capabilities.** Banks are implementing a larger scale of capabilities.
- **Desire to target niche opportunities.** Banks want to have the scale to target markets, including increased industry verticalization and specialized product areas.
- **Low interest rates.** Lower rates can help banks bring in more profits.
- **Soaring stock prices.** Shareholders are eager to increase their returns through M&As.
- **Pent-up supply and demand.** Both sellers and buyers are interested in pursuing M&As.[2]
- **Declining loan business.** Banks seek non-interest income to compete outside of deposits.

There are several incentives for banks to pursue M&A activity in 2022, on both sides of the acquisition equation, and they can be successful when they understand the landscape of activity.

Here are four major trends to watch for in 2022 and tips to help banks prepare.

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1 Continued digital transformation

Advantages to continuing digital transformation:

- Efficiency and resiliency.
- Protect margins.
- Cash flow.
- Innovation.
- Deeper client knowledge.

Digital transformation is already happening in banking.

There may be some temptation to put these activities on hold during M&As due to capital expenditures and innovation priorities, but there are major advantages to continuing the transformation as combinations are being considered throughout the deal execution period and beyond.

Efficiency and resiliency. With a digital-first IT foundation, it's easier to pivot and be agile in difficult, unpredictable markets.

Protect margins. Employees who have permission to access data across digital technologies can quickly spot trends, as well as use artificial intelligence (AI) and other applied analytics to act before margins and customer value become threatened.

Cash flow. With analytics, AI, and machine learning (ML), banks can more easily identify untapped existing opportunities or brand-new opportunities to optimize cash flow.[3] Cash flow can also be forecasted and analyzed in a more efficient fashion with new treasury management technologies.

Innovation. Digital capabilities make it easier to innovate internal processes and customer offerings, as well as have an upskilled workforce.[4]

Deeper client knowledge. These capabilities can give banks a better understanding of their commercial customers' evolving behaviors and needs to protect and deepen those relationships. It also gives banks the tools and knowledge to upgrade their customer experience to compete in the market.

The risks of pausing or canceling a digital transformation are too great for banks during M&As.

How can banks continue their transformation during an M&A?

1. **Assess your resources.** How do your people, processes, functions, and most importantly customers currently fit with your desired transformation? This is an opportunity to identify redundant processes and potential compatibility issues, as well as areas to consolidate.
2. **Identify experienced partners to assist you.** You may need a partner to assist your bank with integrating its technology throughout the M&A. Seek out potential fintech partners to help at the beginning of the M&A.

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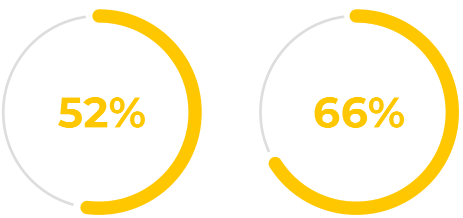
2 Increased focus on customer strategy



Over half of customers (52%) expect institutions to always personalize offers, and two-thirds (66%) expect institutions to understand their unique needs and expectations.[5]

Customer expectations of their banks are growing – and those needs must continue to be met during M&As to prevent attrition. Over half of customers (52%) expect institutions to always personalize offers, and two-thirds (66%) expect institutions to understand their unique needs and expectations.[5]

The channels that customers interact with and their interactions with banks in general are changing.[6] To respond, banks must move beyond experience and think about the science behind why customers do what they do.

This is where customer science goes steps beyond experience. It combines technology, data, and AI to predict what your customers will do next versus what they say they'll do next.[7] This helps your bank create a unique value for customers: by providing what they need when or even before they need it, you're improving their lives, as well their relationships with you.

To help fight attrition risks, for example, banks can use their digital capabilities to focus on customer experience. Their analytics can help identify acquired customers who pose a risk to thrive or fail because of the M&A early on, allowing banks to refocus retention efforts.

In addition, these capabilities can help banks identify small or mid-sized business customers being underserved. By identifying these opportunities early, banks can use their digital customer service capabilities to upsell or cross-sell underserved markets, increase penetration in those markets, and maximize synergies sooner.

Losing customers during and after an M&A can threaten the success of the M&A. How can banks continue to provide an exceptional experience during M&As to help reduce attrition?

1. **Identify high-priority customers.** Offer these customers white-glove treatment throughout the M&A, with special access to the support teams or services they need, either from you or from a trusted partner.

2. **Cultivate relationships built on trust.** Help your customers see how your institution can help them build up their savings, establish strong credit, create generational wealth, and achieve their overall long-term financial goals.

3. **Don’t abandon customers.** How will you communicate with them throughout the M&A? How will you define the new onboarding process? Make these decisions early to help your retention, and consider finding a partner to help with onboarding and training.

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3 More powerful merger integration offices

M&As are increasingly led by a temporary but powerful office of leaders that decides how the M&A will proceed: the merger integration office (MIO).

Expect to see MIOs become an even more powerful M&A tool in 2022.

MIOs aren't new. They help plan the actual steps of the bank merger and ensure it's successfully completed. But why should you expect to see MIOs become an even more powerful M&A tool in 2022?

Timely insight. The MIO has near real-time access to how well the migration is performing and which individual customers may need additional support. These are key factors in the success of an M&A.

Portfolio knowledge. The MIO has a deep, early understanding of where risks and opportunities lie within the combined portfolio. This allows them to prioritize growth synergy and optimize service model designs early in the M&A.

Major decisions. The MIO decides exactly what happens during the M&A. It decides the steps in each stage, who'll lead each stage, the technology the bank will use during and after the M&A, and the timelines for completion. Everything in the M&A reports up to those decisions.

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4 M&A timeline challenges

While M&As are continuing at a fast pace, there are key developments happening on the federal level that could impact or even slow down planned M&As in 2022 – and banks must be prepared for those possibilities.

M&A practice review.

In the summer of 2021, President Biden signed an executive order to review M&A practices and adopt a plan to revitalize them. This review, which is happening in consultation with chairpersons of the Federal Reserve, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency,[8] could have implications for how quickly M&As proceed in 2022.

One possible consequence for banks is that approval for their M&A could be slower due to a more thorough review plan.[9, 10]

Agency confirmations.

Disagreements about agency picks requiring confirmation could impact M&A timelines. President Biden's picks to lead regulatory bodies, such as the renomination of Federal Reserve chair Jerome Powell and the nomination of governor Lael Brainard as one of two vice chairs on the board, are drawing praise and criticism from both political parties.

These delayed confirmations could also impact the speed with which M&A applications are approved.[11]

Three keys to a successful M&A

Knowing how these trends could impact an M&A, banks need to ensure these aspects are included in their M&A plans to ensure their success.

Key #1: Have a complete data migration plan.

- **Account for all data.** Data that's left behind can reduce your bank's success once the M&A is complete. Ensure that all data is accounted for before the M&A begins, and give the people in charge of the migration the authority to plan how to leverage that data during the M&A and beyond.
- **Measure customer engagement.** Use your data to take advantage of increasingly important and time-sensitive information regarding how individual customers and market segments digitally engage with you. Identify relationship risks for legacy customers concerned about the M&A, migration risks for customers coming into a digital platform, and revenue opportunities.
- **Bring in the right players.** Several people are required to help combine systems, including the MIO and engineers. Make sure those players are lined up before the M&A begins to ensure no system is left unaccounted for – and give those players the resources, support, and technology they need throughout the migration.

Key #2: Have complete plans for Legal Day 1 and Customer Day 1.

- **These days may be separate, so prepare accordingly.** Legal Day 1 is when the merging organizations are legally combined, allowing them to have access to each other's data or other assets that would be considered anti-competitive. It may or may not be the same day as the day the merged organizations begin serving customers as a new entity, but it's just as important.

- **Be ready to answer shareholder questions.** Shareholders care about these days. The success of these days translates into demand, budget, and spending. They want to know you're spending their funds wisely all the way from the M&A announcement through the synergy capture as a new entity. Have those answers ready to keep shareholders confident in their investment.

- **Don't forget your fraud plan.** Banks must understand and protect against the unique fraud threat profile involved in M&As. This may include an increased risk of payment-related fraud, as well as insider fraud threats from a rapidly growing employee base. Have a solid fraud plan to help reduce potential threats to these critical days – and beyond.

Key #3: Don't leave customers in the dark.

- **Mitigate attrition risks.** Your revenue timing and synergies, cost savings, and customer retention all depend on projections of how much customer base will be acquired and retained. Take the necessary steps to improve retention.

- **Build trust with customers.** Continue to highlight the value they'll experience from the M&A. Offer white-glove treatment to high-value customers, as well as training and frequent communication throughout the M&A to all customers. Your data and analytics can help you identify these opportunities.

- **Adopt digital tools.** Leverage tools that can help scale increased levels of client engagement during conversion, including eLearning and live chat functions.

- **Bring on a strategic partner.** Find a partner not just with knowledge, but also with services, products, data, and solutions to help your customers navigate throughout the M&A and beyond.

Preparation is key

Bank M&As are happening at record levels, and we can expect these records to be challenged and even broken in 2022.

By understanding the trends and factors that can impact their M&As, having plans in place to ensure success at each step of the M&A, and empowering the people leading the M&A to make decisions, banks can ensure they'll experience success immediately after the M&A – and beyond.

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