Striking the right chord
M&A integration in financial services
In June 2014, Remark, the market research division of the Mergermarket Group, surveyed 200 C-level executives on behalf of EY. All of the financial services (FS) companies included in the survey had conducted a recent acquisition.

Those surveyed occupy a range of senior roles, such as CFO, strategy director, head of M&A and integration director.

Regional split

To be eligible for the survey, companies in the banking sector required revenues (defined as net interest income, fees and commissions, and other income) greater than US$8b, companies in the insurance sector required gross written premiums greater than US$2b and asset managers required assets under management of more than US$30b.

The survey included a combination of qualitative and quantitative questions, and all interviews were conducted over the telephone by appointment, with the results analyzed and collated by Mergermarket. All responses are anonymized and presented in aggregate.
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Foreword

Welcome to EY’s financial services integration survey, *Striking the right chord*. Financial services groups are being confronted by a common set of challenges in executing their acquisitions and realizing transaction objectives. We hope this study will highlight some of the common challenges and help acquirers and vendors to manage their acquisition integrations more effectively.

Michael Wada,
Associate Partner, London
EMEIA Financial Services,
Transaction Advisory Services
The last six years have been an interesting time for M&A in financial services, with the nationalization and break-up of some distressed institutions, the carve-out of non-core assets by many financial services companies, and the increased demands on capital adequacy reducing the funds available for acquisitions. Coming out of this cycle, we can now see strategic M&A returning to the agenda of the boardroom.

Financial services firms have learned from past mistakes in managing integration. As a result, we have seen the approach to managing acquisition risk change, maybe forever. “Buy now, plan what to do with it later” appears to be a thing of the past, and we are seeing much greater scrutiny from regulators, the market and our clients on integration analysis and planning. Corporates require a clear understanding of how the target business will be integrated before signing a deal, and regulators are asking to review these integration plans as part of their approval process.

In the work we have completed both prior to and during the crisis, we have helped clients adjust to these changes and have guided them from pre-deal integration design through to post-deal execution.

In this report, 200 executives from the financial services industry share their experience of planning and delivering integrations, how they view their own performance and what they think needs to be improved. In total, the executives have completed 424 transactions over the past three years, and the study covers all aspects of the integration process. It provides unique insights into the operational challenges and priorities of corporates involved in financial services dealmaking.

Many of the challenges financial services corporates are facing are not new, but the survey suggests that the ability to overcome them is not getting any easier. Shareholder pressure on managing integrations effectively and creating value is arguably as high as it has ever been.

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Michael Wada
Key findings

70% had a synergy and integration plan in place prior to signing.

69% had target resources in the integration project management office.

52% said they would want more integration resources on their next deal.
Integration in M&A is never going to be easy. However, it is arguably the key to unlocking and judging the success of a deal.

This is particularly true in the financial services sector, where growing scrutiny and increased regulation mean that deals are very much under the microscope. Corporates need to have a robust strategy behind any acquisition—one that board members, shareholders and regulators can understand and appreciate. Integration of the asset can be an integral part of that strategy.

Our survey reveals five key practices that FS companies should follow in order to achieve success.

1. Having a synergy and integration plan pre-signing is now the norm. Corporates are no longer waiting to complete their due diligence and pricing negotiations before engaging the wider business to start thinking about how the deal will create value. Seventy percent of respondents had a synergy and integration plan in place pre-signing, rising to 93% for deals over US$1b in value. Our survey shows that this is not just best practice but that it also delivers tangible benefits, increasing the likelihood of realizing higher synergy levels and incurring lower one-off costs to achieve them. For more on this, see “Planning ahead,” page 6.

2. Don’t underestimate the importance of having the right resources. Fifty-two percent of respondents say they would want more integration resources next time and 40% would want better-quality integration resources. A good integration setup should be led by an integration director with a wide range of skills and experience, but there tend to be few candidates freely available in the business. Forty-five percent of FS integrations have over 50 dedicated personnel supporting them. This is a significant commitment to make without adversely impacting business as usual client service and operational performance. It is then also critical that key resources from the target are fully embedded into the integration program structure. Having an effective process is important, but having the right people to deliver it is critical. For more on this, see “The right resources,” page 12.

3. Deal value drivers need to be well-defined, clearly articulated and tracked. The value created from a transaction depends on a number of factors, including the effectiveness of pre-deal due diligence, the valuation approach, the acquirer’s negotiation skills and the ability to realize value through integration. Our survey shows that the value drivers in deals can vary significantly by sector and geography. Acquirers must also be careful not to lose focus on organic growth during integration, as this can often be a greater source of value than integration synergies. For more on this, see “Creating value,” page 18.

4. Be clear on your ‘must do’ activities at each stage of the integration. The priorities of an integration program change over time. Our survey shows that respondents are typically more focused on operational and control functions in the early stages of an integration, with front office functions being considered later in the process. Careful prioritization and clear measurement of progress is required to focus management attention and ensure optimal allocation of resources. For more on this, see “Effective execution,” page 24.

5. People and IT considerations underpin the integration plan. The integration of HR and IT functions themselves was not considered a top priority by respondents. Yet People and IT considerations can be key enablers or constraints in the integration. Without an effective People strategy, the integration may be derailed by culture clashes, the loss of talent or customer service disruption due to employee motivation. Equally, the ability to merge teams and create process efficiencies may be dependent on the migration of data or the implementation of new systems. For more, see “People and technology,” page 32.
Planning ahead

Creating an integration plan before signing enables the acquirer to deliver greater value from the transaction.
93% of respondents with deals of US$1b or more have a pre-signing plan in place.

30% of respondents do not have any pre-signing plan in place.

Corporates enter M&A for a wide variety of reasons, be it for geographic growth, scale and market share, product and service diversification, client relationships or platforms and systems.

Irrespective of the deal rationale, however, a significant majority (70%) of respondents had a synergy and/or integration plan in place before signing their last deal. Our research also shows that pre-deal planning is seen to be even more important on larger deals, with 93% of deals over US$1b having a plan in place pre-signing.

This pre-signing planning tends to be encapsulated in an “Integration Blueprint” setting out, amongst other things, the integration objectives and measures of success, integration strategy, target operating model design principles, integration roadmap, synergy value and one-off cost drivers and assumptions, and mitigation strategies for the key integration risks. Depending on a number of influencing factors (see page 10), the integration blueprint can be anything from 30 to 300 pages long.

Q Did your firm have a synergy and/or integration plan in place ahead of signing?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall</strong></td>
<td>70%</td>
</tr>
<tr>
<td>By sector</td>
<td>Asset manager: 60%, Bank: 76%, Insurance company: 64%</td>
</tr>
<tr>
<td>By deal size</td>
<td>Less than US$500m: 51%, US$500m-US$1b: 66%, More than US$1b: 93%</td>
</tr>
</tbody>
</table>
Early planning can increase deal value
There is a clear link between early integration planning and the ability to realize value from synergies. Our research shows that 29% of respondents that had a pre-signing plan realized a 40% reduction in the target’s cost base through synergies, whereas only 12% of respondents without a pre-signing plan achieved that scale of cost synergy. This is perhaps driven by corporates targeting high levels of synergies; in this scenario it is natural to start the planning process early.

Our research also shows the additional benefits of early planning. The one-off costs of integrating tend to be lower when a synergy or integration plan is in place pre-signing. Almost a quarter of respondents who had an integration plan in place ahead of signing say that their total one-off implementation costs were less than 50% of annual cost synergies. Only 5% of those who didn’t have an integration plan ahead of signing say the same.

Early planning can be a competitive advantage
Some vendors ask potential buyers to submit their integration plans as part of their bids, factoring the ability of an acquirer to transition the business smoothly and quickly as a key criteria in determining the buyer.

In competitive sale processes, synergies can still help differentiate a potential buyer’s bid for the target. But when committed in the deal price, these synergies require robust plans to increase the likelihood of avoiding deal value erosion.

As one strategy director at a US bank pointed out, having a good synergies blueprint in place can reap rewards: “Tax efficiencies created value in the transaction. Our compliance procedures and well-implemented tax plans had a positive impact on the debt structuring and meant that cost reductions could be achieved.”

“Early and active planning is becoming more prevalent in Asian transactions to identify the key areas of potential value which can help justify the high deal premiums”
Charlie Alexander, Partner, Hong Kong
Early planning increases confidence

Early planning also gives comfort to regulators that the operational implications and client impacts have been adequately considered. In some recent cases, we have seen the review of the integration plan by the regulator as being a prerequisite for deal approval.

A plan is also useful in terms of calming the fears of executives who could be apprehensive. Management teams are increasingly nervous about ensuring, and being seen by investors to be making, the best use of available capital. The existence of a robust integration plan prior to signing the deal can increase their confidence of post-deal success. “A target for cost and revenue synergies was key to keeping an overall perspective of the transaction as this is how we defined success,” explains the M&A director of a Swiss insurance company, who had an integration plan in place pre-signing and anticipates more than 40% in annual cost synergies in the 36 months post-completion. “This increased our confidence in going ahead with this transaction.”

As a proportion of annual cost synergies, what were the total one-off implementation costs?

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Firm had pre-signing synergy or integration plan</th>
<th>Firm had no pre-signing synergy or integration plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 50%</td>
<td>24%</td>
<td>9%</td>
</tr>
<tr>
<td>50%-100%</td>
<td>55%</td>
<td>65%</td>
</tr>
<tr>
<td>101%-150%</td>
<td>21%</td>
<td>28%</td>
</tr>
<tr>
<td>151%-200%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

“Estimating synergies without a corresponding integration plan equates to a guesstimate. Integration plans are needed as a reality check for synergy estimates”

Mitchell Berlin, Partner, New York
How much planning should you do pre-signing?

The amount of deal planning required by financial services companies will ultimately depend on the specific circumstances of the transaction. Eight key factors to consider are:

<table>
<thead>
<tr>
<th>Importance of synergies</th>
<th>Bidding position</th>
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<tbody>
<tr>
<td>Investigate the importance of synergies to the deal rationale in differentiating the bid from those of competitors. If synergies are key to the transaction then more robust planning is required.</td>
<td>Assess the competitiveness of the transaction and balance the risk and reward regarding investment in the early planning stages.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Depth of integration</th>
<th>Speed of integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explore the depth of integration expected – for example, those sections of the target that will be integrated fully and those that will retain autonomy – and tailor the scale of planning required.</td>
<td>Gauge the speed at which you plan to integrate and the ambition of your proposed day one operating model for the combined business, and ensure this is reflected in an achievable, phased plan.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholder compliance</th>
<th>Transaction type and process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluate if and when your board, the vendor and the local regulator will expect to review your integration plan, and ensure that the plan is sufficiently developed for these milestones.</td>
<td>Evaluate the length of time expected and the pressure on the critical path from signing to closing. This will be influenced by whether it is a carve-out and/or an asset versus share deal.</td>
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<table>
<thead>
<tr>
<th>Data watch</th>
<th>Prior experience</th>
</tr>
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<tbody>
<tr>
<td>The depth of planning may be constrained by the quality of data or availability of information on the target. Differentiate between assumption-based planning and fact-based planning, and be in a position to develop plans as data and access improve.</td>
<td>Consider organizational readiness for an integration (e.g. existing playbook and experienced in-house team) and degree of recent and relevant prior experience at the type of integration required. If experience gaps are identified, consideration should be given to supplementing in-house capability through external channels.</td>
</tr>
</tbody>
</table>
Advanced, effective integration planning enables more rapid and efficient mobilization of the integration program once the deal is announced.

A well thought out integration plan enables clearer and richer communication to clients and employees, as there is increased clarity in the messaging regarding the proposed combined state of the business.

Making integration plans prior to signing gives corporates the chance to obtain several key options they may otherwise miss. This doesn’t just mean synergies that have a tangible, qualitative measure. Early planning shows vendors a greater willingness to turn potential problems into solutions, and gives a level of confidence to regulators and other external stakeholders about the long-term focus on the deal.

“Our clients are finding that the rewards of starting integration planning early materially outweigh the risks of potentially sunk investment if the deal aborts”

Michael Wada, Associate Partner, London

Hints and tips

In parallel with target due diligence, acquirers have many facets of the deal to consider. Here are six key aspects to consider when developing the perfect plan:

1. **Establish a clear financial and operational baseline.** Ensure there is a clear and consistent understanding of the current operating model and cost drivers of both the acquirer and the target.

2. **Define the target operating model.** Build the hypothesis on what the combined business will look like on both the day the deal closes and at the end of integration.

3. **Build the synergy case.** Assess what value can be created through integration, but don’t forget to include the one-off costs needed to achieve this.

4. **Organize and design talent management.** Form a view on how the management team of the target will be integrated, and identify who should be retained.

5. **Design the integration program structure.** Map out the governance and management framework for the integration, and identify candidates for the key roles.

6. **Set the roadmap.** Identify the key phases and milestones for integration. Pay particular attention to the critical path of activity through to closing.
The right resources

Focused management, a strong leader, and a dedicated team are all key elements.
59% of respondents who did deals of more than US$1b had dedicated integration teams of more than 50 people.

52% of respondents say more integration resources could improve their future integrations.

Integrating an acquisition in the FS industry is a complex process that requires strong management and effective resourcing from start to finish. To aid this, a strong integration director is needed to oversee the process, and there needs to be an appropriately resourced integration team in both the acquirer and the target. Additionally, acquirers need to be mindful of how to utilize the expertise of the target’s management teams and key talent.

Managing these factors is still something with which FS acquirers are coming to grips. In the survey, 52% of respondents believe their future integrations could improve with more integration resources, while 40% say that better-quality integration resources could improve delivery of future integrations.

**Integration director**
The role of an integration director is a highly demanding one. They are expected to display a wide range of operational, communication and leadership skills, with similar characteristics considered important across all geographies and sectors.

Close to a fifth of respondents say that integration experience is the most important attribute for an integration director, together with the authority to make day-to-day operational decisions on behalf of the integration steering committee.

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**Q** What are the key skills and attributes that an integration director should possess? (Please select three, and rank from 1 to 3, where 1 = the most important and 3 = the third most important)

<table>
<thead>
<tr>
<th>Skill/Attribute</th>
<th>Most Important</th>
<th>Second Most Important</th>
<th>Third Most Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration/separation experience</td>
<td>19%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Business-specific knowledge</td>
<td>16%</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Sector-specific knowledge</td>
<td>14%</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>“Big picture” understanding</td>
<td>12%</td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>Authority to make day-to-day operational decisions</td>
<td>19%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Program management/change expertise</td>
<td>8%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Stakeholder management and communication</td>
<td>12%</td>
<td>6%</td>
<td>11%</td>
</tr>
</tbody>
</table>

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Knowledge of the business and the sector were ranked almost as highly, closely followed by strong stakeholder management and communication skills and the ability to look at the big picture. “Experience and sector-specific knowledge is a must for an integration director. They need to formulate integration procedures and assign the duties to executives who can manage the task well,” says a strategy director at a Swiss asset management firm.

Interestingly, respondents saw a key difference between integration experience and general program management and change expertise, ranking the latter lower in importance and noting that integrations are significantly more complex to run.

The expectations of the skills and attributes that the integration director will bring to the program are therefore very high, and it is not an easy role to fill. Candidates need to be carefully identified and then released from their business as usual role, often for a number of years. Some corporates are now looking to maintain a shortlist of integration director candidates within their organization, which they can tap into when acquisition planning starts.

Whilst not assessed as part of this survey, emotional intelligence is another key characteristic often found in successful integration directors, who need to bring together management and employees from two organizations with different cultures and communication styles.

**Integration resources**

Integrations present resourcing challenges. Since the financial crisis, budgets have been cut, and there is generally limited capacity within firms to assemble specialist teams for integration planning and delivery.

Forty-five percent of respondents across all FS sectors had over 50 people dedicated to the integration team. Allocated resources were higher for larger deals, with 59% of deals larger than US$1b having a team of more than 50, compared with just 28% of deals valued at less than US$500m.

Interestingly, the proportions were also higher in the wealth and asset management (54%) and insurance sectors (58%) than in banking (35%).

The issue of resources is exacerbated in smaller organizations, where key staff are often thinly spread and typically already juggling multiple responsibilities.

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**What factors could your firm improve upon in future integrations?**

(Please select all that apply)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>More effective governance, decision-making and program management</td>
<td>56%</td>
</tr>
<tr>
<td>Communicate better with stakeholders</td>
<td>54%</td>
</tr>
<tr>
<td>More integration resources</td>
<td>52%</td>
</tr>
<tr>
<td>Start integration planning earlier</td>
<td>50%</td>
</tr>
<tr>
<td>Integrate more quickly</td>
<td>45%</td>
</tr>
<tr>
<td>Better-quality integration resources</td>
<td>40%</td>
</tr>
<tr>
<td>Integrate more deeply</td>
<td>35%</td>
</tr>
</tbody>
</table>

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Mobilizing the integration team

Finding and securing the scale of resources across the organization is only the first step. Below are six steps that corporates can follow to organize, motivate, and steer their teams down the right path.

- Get resources on board quickly and ensure that they have a common understanding of the deal, the integration approach and specific dos and don’ts, for example, in relation to the sharing of information between two different companies.
- Establish effective means and mechanisms for internal communication about progress and key decisions within the integration program team.
- Provide coaching and guidance on the framework, approach and tools being used to drive the integration forward.
- Ensure that any gaps in business as usual resourcing are backfilled where necessary.
- Consider how the performance management plans and incentivization of these resources need to be adjusted in light of their integration role and responsibilities.
- Over time, these dedicated resources will complete their designated activities and be ready to return to business as usual. You should be mindful of this from the outset and be ready with efficient plans for off-boarding and redeploying talent.

Please indicate the number of people on your dedicated (more than 50% of time on integration) integration team?

By deal size

- Less than US$500m
  - 26%
  - 31%
  - 15%
  - 28%

- US$500m–US$1b
  - 27%
  - 9%
  - 15%
  - 49%

- More than US$1b
  - 4%
  - 21%
  - 16%
  - 59%

By sector

- Asset manager
  - 8%
  - 10%
  - 28%
  - 54%

- Bank
  - 9%
  - 16%
  - 22%
  - 35%

- Insurance company
  - 12%
  - 12%
  - 18%
  - 58%
What roles in the integration process did the target company’s management and staff take on?

**Member(s) of the integration project management office**

<table>
<thead>
<tr>
<th>By deal type</th>
<th>By target size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic/local</td>
<td>68%</td>
</tr>
<tr>
<td>Regional (same continent)</td>
<td>64%</td>
</tr>
<tr>
<td>Global (different continent)</td>
<td>75%</td>
</tr>
<tr>
<td>Overall</td>
<td>69%</td>
</tr>
</tbody>
</table>

**Leader(s) of workstreams**

<table>
<thead>
<tr>
<th>By deal type</th>
<th>By target size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic/local</td>
<td>56%</td>
</tr>
<tr>
<td>Regional (same continent)</td>
<td>59%</td>
</tr>
<tr>
<td>Global (different continent)</td>
<td>62%</td>
</tr>
<tr>
<td>Overall</td>
<td>59%</td>
</tr>
</tbody>
</table>

**Leadership role(s) in overall integration/cross-workstream**

<table>
<thead>
<tr>
<th>By deal type</th>
<th>By target size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic/local</td>
<td>55%</td>
</tr>
<tr>
<td>Regional (same continent)</td>
<td>56%</td>
</tr>
<tr>
<td>Global (different continent)</td>
<td>43%</td>
</tr>
<tr>
<td>Overall</td>
<td>52%</td>
</tr>
</tbody>
</table>

**Member(s) of the steering committee**

<table>
<thead>
<tr>
<th>By deal type</th>
<th>By target size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic/local</td>
<td>55%</td>
</tr>
<tr>
<td>Regional (same continent)</td>
<td>38%</td>
</tr>
<tr>
<td>Global (different continent)</td>
<td>66%</td>
</tr>
<tr>
<td>Overall</td>
<td>52%</td>
</tr>
</tbody>
</table>
Target expertise
The role that a target’s incumbent management and key staff play in an integration is a crucial consideration for dealmakers.

According to the study, a target’s management team regularly takes on a strategic role in the integration process. Fifty-two percent ensure representation from the target on the steering committee; 69% of respondents ensure that resources from the target are part of the integration program management office; and 59% of respondents put incumbent managers as the leaders of workstreams.

These resources in the target know how best to effect change within their organization and can bring great insight into how to leverage the strengths of that business for the benefit of the acquirer. Their involvement in key roles can also send an important message to staff in the target, showing that the acquirer values the target’s knowledge and experience. Those who are not leveraging these capabilities increase their implementation risk significantly.

Across all the sub-sectors, most respondents say incumbent management teams are made members of the integration project management office, with 74% of insurers, 68% of banks and 65% of asset managers placing a target’s management in these roles. Sixty-five percent of asset management respondents also made incumbent managers the leaders of workstreams, followed by banks (58%) and insurers (56%).

Overall, this shows that targets are being given real authority in steering the integration’s direction. For many deals, this is likely to contribute to a more successful integration as, initially at least, a target’s management will know its company better than the acquirer.

In global deals, the target’s management is more likely to be given a prominent role. For instance, 75% of respondents involved in a global deal say the target’s management was involved in the integration project management office. This makes sense as in more distant countries the acquirer is less likely to know the market as well as the target does.

“There are key differences between running business as usual projects and integrations, which make having resources with the experience of delivering change in a transaction environment a key determinant of success”

Michael Wada, Associate Partner, London

Hints and tips

Below are six enablers for creating the right integration team:

1 A strong and experienced integration director. One who can lead the integration on a full-time basis from start to finish.

2 A clear understanding of the resource requirements of your change portfolio. This ensures that, if you need to review this and reprioritize in light of an integration, you know what you can achieve and what the repercussions are.

3 A robust approach to quantifying the resource needs of integration. This will allow you to evaluate the type and quantity of resource required in each phase of integration.

4 A plan for how you will train and coach the integration resources in both the acquirer and target. This entails what they need to do and how you wish them to do it.

5 Clear strategies for workload. Ensure you have assessed how you will help management and key resources balance their integration and business as usual responsibilities over a sustained period.

6 Robust oversight policies. Corporates must closely monitor the resource levels and quality of delivery across the integration program, and be ready to act fast when required.
Creating value

Well-planned synergies influence the purchase price and help focus post-deal investment in the right areas.

55% of respondents say that funding, capital or tax efficiencies are the most important factors in creating value.

The value that can be created from integration falls into three categories: revenue synergies (such as cross selling), cost synergies (savings in operating expenses) and financial synergies (including funding, capital and tax efficiencies).

Acquirers can use company-specific synergies as a competitive advantage in a bidding process. This is particularly the case when a corporate is bidding against a private equity firm, which may not be able to merge the target with an existing portfolio company.

Synergies are also part of the narrative that buyers use to explain the strategic objectives of a transaction to their own boards, shareholders and the market.

Once defined, the synergies and strategic rationale for a transaction must be clearly communicated to the integration team as these will set the overall direction and inform integration priorities.

**Financial synergies**
Integration programs can often be focused on delivering operational changes, which result in cost and revenue synergies. However, our survey suggests that financial synergies have become the most
important driver of value in FS transactions. Among respondents, 55% said that funding, capital or tax efficiencies were the most important factors in creating value.

From a funding perspective, the cost of borrowing may be reduced if the integration results in an improved credit rating for one or both parties or if the funding requirements are consolidated across the combined business.

The integration may also bring opportunities to improve capital efficiency by changing corporate structures and improving the business's risk profile. “Through this transaction, our collective capital amounts increased, and we are now able to access debt and equity financing, which was earlier beyond our reach,” reveals the director of strategy at a US-based bank.

From a tax perspective, the integration may bring opportunities to move to a more favorable tax regime, achieve VAT savings through insourcing certain activities or offset corporate tax losses across the combined group. “The deal was planned in a tax-efficient way that meant that the transaction added value to both parties,” says the director of strategy at a French asset management firm.

“Integration costs vary significantly across the Asian markets and can be highly dependent on local regulations, sentiment and politics”

Charlie Alexander, Partner, Hong Kong
Many of the financial synergies noted on page 19 are closely linked to operational changes in the business, and it is therefore important that they are tracked as part of the broader integration plan.

**Cost synergies**
Companies are usually confident in their ability to identify, achieve and measure cost synergies and are likely to include a large proportion of the expected cost synergies in their valuation models.

Our survey showed that 81% of respondents expect to achieve annual cost synergies equivalent to more than 20% of the target’s cost base within three years of completion. Twenty-four percent of respondents expect to achieve more than 40% annual cost synergies over this timeframe. As a subset of the population, Asian respondents are more conservative when it comes to cost synergies; only 10% expect to save more than 40% of the target’s cost base over three years.

The cost savings that can be achieved depend on the “fit” of the target and acquirer’s operating models and the operational performance of the target business. It will be easier to cut costs in an underperforming business, where there are obvious opportunities to improve efficiency.

**Revenue synergies**
Revenue synergies are often very important to the overall strategic rationale for a transaction: in our survey, 22% of respondents cited revenue synergies as the main source of value, while 63% said it was one of the key value drivers.

Typically, revenue synergies are most associated with improving sales productivity to the best of both organizations, cross-selling products or services, leveraging combined distribution channels, and combining capabilities to offer new products and services.

However, while revenue synergies can be beneficial, acquirers are commonly divided on whether to include them in their valuation models. Many deal teams perceive revenue synergies as difficult to achieve, and they don’t want to overpay for the business. More than

**As a proportion of the target cost base, what are the estimated annual cost synergies to be achieved in the 36 months after completion?**

- 10%-19%: 19%
- 20%-29%: 43%
- 30%-39%: 14%
- More than 40%: 24%

**What were the most challenging aspects of achieving revenue synergies? (Please select all that apply)**

- Delivering revenue synergies according to plan: 69%
- Identifying revenue synergies during integration planning: 63%
- Separating true revenue synergy from organic revenue generation for tracking purposes: 62%
- Failure to initially target or track revenue synergies: 40%
60% of respondents found it hard to identify revenue synergies during integration planning (63%), to deliver those synergies according to plan (69%) and to distinguish between revenue synergies and organic revenue growth (62%).

Value drivers by sector
Our survey revealed some interesting variations in value drivers for deals in different FS sub-sectors. Asset managers had a stronger focus on acquiring new technology and building scale in their domestic markets compared to banks and insurers.

The strongest strategic driver in banking and insurance transactions was geographic expansion.

Banks were also focused on product and service diversification, which may reflect the desire of traditional banking institutions to keep up with new entrants within the financial technology space, known as FinTech. “Service diversification was the strategic rationale behind our latest deal,” reveals the director of strategy and finance at a Brazilian bank. “With the level of global competition it is essential to create a mark by offering unique services to clients and thus gain a competitive edge. The target was an appropriate platform to do so.”

Overall, the above differences in strategic rationale meant that asset managers were less focused on achieving revenue synergies than respondents in other sub-sectors.

Value drivers by deal geography
Our survey showed that firms involved in domestic deals were twice as likely to identify cost synergies as the most important driver of value than firms undertaking global deals. This underlines the fact that cost synergies are easier to achieve when two businesses have overlapping geographic footprints. In contrast, revenue synergies are much more likely to be the most important driver for global deals than for regional and domestic deals, highlighting that international transactions are more likely to be focused on gaining access to new markets and distribution channels.

What was the strategic rationale behind the deal?

<table>
<thead>
<tr>
<th>Client relationships</th>
<th>Geographic expansion</th>
<th>Platforms and systems</th>
<th>Product and service diversification</th>
<th>Scale and market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>By sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset manager</td>
<td>18%</td>
<td>15%</td>
<td>28%</td>
<td>11%</td>
</tr>
<tr>
<td>Bank</td>
<td>15%</td>
<td>32%</td>
<td>6%</td>
<td>24%</td>
</tr>
<tr>
<td>Insurance company</td>
<td>20%</td>
<td>32%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>By geography</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMEA</td>
<td>18%</td>
<td>26%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Americas</td>
<td>19%</td>
<td>30%</td>
<td>10%</td>
<td>26%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>10%</td>
<td>32%</td>
<td>13%</td>
<td>20%</td>
</tr>
</tbody>
</table>
From a regional perspective, our survey showed that respondents in the Americas were less focused on domestic market share and more focused on product diversification than their counterparts in the EMEIA and Asia-Pacific regions.

**Implementation costs**

Inexperienced acquirers can sometimes underestimate the one-off costs required to execute, integrate and realize synergies.

Examples of implementation costs include redundancy payments, key person retention schemes, recruitment costs, relocation costs, system integration, data migration, office refurbishment, rebranding, contract break fees and project delivery resources.

Our survey showed that 82% of respondents incurred implementation costs that were more than 50% of the annual cost of synergies achieved from integration. Twenty-four percent of respondents incurred implementation costs that were more than 100% of annual cost synergies.

Integrations involving significant system and data integration are typically at the top end of this range. There were no material differences in the level of implementation costs between the FS sub-sectors. However, the implementation costs were higher as the geography of the deal widened.

“We see effective integrators ensuring that the synergy case is owned by the business from the outset and that financial targets are embedded into individual performance plans”

Michael Wada, Associate Partner, London
Don’t let value slip

Firms need to ensure their integration plan doesn’t destroy the value that they intend to create.

While integrations can deliver significant value, acquirers should also be realistic about potential negative synergies and ensure these are factored into the transaction business case.

The drivers of negative synergies are just as varied as those for positive synergies. Examples include upward alignment of employee compensation across the two organizations, unfunded pension liabilities, more onerous regulatory requirements for the combined business, and customer attrition as a result of the transaction.

Value can also be lost during deal negotiation through inaccurate assessment of integration synergies and, post-deal, as a result of ineffective integration management and synergy realization.

During integration, there is also a risk of disrupting business as usual performance. The organic growth of the integrating businesses can often exceed the value of the potential synergies. It is therefore important that measures are taken to ring-fence integration activity. In a worst-case scenario, a badly managed integration can adversely impact market reputation, with knock-on impacts on business value and credit ratings.

Hints and tips

To assess synergies, firms should follow these eight steps to ensure their value barometers are in tune:

1. Be clear. The deal rationale needs to be clearly articulated to provide a basis for the synergy case.

2. Know your target. The buyer should form a detailed understanding of the target’s costs and operations.

3. Get the right blend. A mix of expertise is required for a synergy case: commercial expertise for revenue; operational expertise for cost; and regulatory, treasury and tax expertise for financial synergies.

4. Take note. The acquirer should document the actions and cost needed to realize each synergy.

5. Keep talking. You may need to consult the vendor’s team to firm up synergy assumptions.

6. Know what to leave out. If there is a low level of certainty attached to synergies, the acquirer may wish to exclude these from the valuation or apply a discount.

7. Weigh the pros and cons. The acquirer should consider any corresponding negative synergies that may arise from the deal when looking at potential sources of value.

8. Keep track. A robust approach to monitoring synergies realized and one-off costs incurred needs to be put in place pre-closing and maintained.

“Don’t bury synergies in next year’s budget. Assigning specific ownership of synergies and tracking them outside of the normal budget process greatly increases your chances of realization”

Mitchell Berlin, Partner, New York
Effective execution

Each function requires consideration in its own right to determine the depth and priority of integration.
66% of respondents stated that delivering synergies was the most important benchmark for integration success.

24% of respondents identified operations as the most important area to consider in day one and 100-day planning phases.

Organizations need to set clear deal-specific priorities in order to shape the focus of integration activity in the run-up to day one and then during the first 100 days. This is vital in ensuring business stability following the change in ownership. The depth of integration in each functional area over the ensuing years is a major determinant of the level of cost synergies achieved.

Companies need clear measures of success which are monitored and critiqued regularly throughout every phase of integration. This is essential in helping management keep the integration program on track. These measures should be tailored to the strategic rationale and objectives of the transaction, and some of them can be used in Sale and Purchase Agreements to help protect the intended acquirer from value erosion during the signing to closing period, by clarifying, for example, levels of acceptable customer and employee attrition.

Q During the day one and 100-day planning phases, what were the most important functional areas to consider? (Please select three, and rank from 1 to 3, where 1 = the most important and 3 = the third most important)

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Most Important</th>
<th>Second most important</th>
<th>Third most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>24%</td>
<td>31%</td>
<td>18%</td>
</tr>
<tr>
<td>Legal, risk and compliance</td>
<td>22%</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>Finance, treasury and tax</td>
<td>17%</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>Front office and distribution</td>
<td>14%</td>
<td>13%</td>
<td>25%</td>
</tr>
<tr>
<td>IT</td>
<td>13%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>HR</td>
<td>10%</td>
<td>4%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Striking the right chord M&A integration in financial services | 25
Getting your priorities right for completion

The operations function was identified by survey respondents as the most important function to consider in day one and 100-day planning. “Operations had to be integrated well to ensure accurate decision-making and control over resources. We concentrated most keenly on this during the planning phase, as operations form the backbone of an organization,” said a senior finance director at a Canadian bank.

The size of the operations function and its importance to client service, business stability and organizational efficiency make it a key area of focus for most acquirers in this initial transition period. Firms considered legal, risk and compliance to be the second most important function. This reflects how critical regulatory approval is for closing as well as the complex obligations that both parties need to meet to ensure legal completion.

A vice president of M&A at an Italian asset manager commented: “Legal, risk and compliance were important issues, as the way we work differs from region to region. Fines and penalties would give us a bad reputation and narrow our growth opportunities.”

Interestingly, almost double the number of wealth and asset managers see legal, risk and compliance as their primary focus compared to insurers – making this the function where the relative importance differed most by sector. Those that focus on finance, treasury and tax as a priority tended to identify the deal structure and synergy opportunities as the key driver for this, as opposed to any concerns over integrated statutory or regulatory reporting requirements.

“We consider finance, treasury and tax to be the most important functional areas, as we want to control the debt structure and the various liabilities and give importance to ensuring tax efficiency,” explains the VP of finance at a US insurer.

Unsurprisingly, focus on front-office and distribution functions increases according to the importance of these capabilities to the deal rationale – for example, geographic expansion and the synergy case (realization of revenue synergies).

Respondents rated HR and IT as lower priority areas of focus than other functions at this stage of integration. Most likely this...

Q During the day one and 100-day planning phases, what was the most important functional area to consider?

<table>
<thead>
<tr>
<th>By sector</th>
<th>Front office and distribution</th>
<th>Operations</th>
<th>IT</th>
<th>Finance, treasury and tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset manager</td>
<td>13%</td>
<td>23%</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>Bank</td>
<td>14%</td>
<td>26%</td>
<td>10%</td>
<td>17%</td>
</tr>
<tr>
<td>Insurance company</td>
<td>16%</td>
<td>22%</td>
<td>18%</td>
<td>18%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By geography</th>
<th>Front office and distribution</th>
<th>Operations</th>
<th>IT</th>
<th>Finance, treasury and tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEIA</td>
<td>13%</td>
<td>25%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Americas</td>
<td>19%</td>
<td>24%</td>
<td>10%</td>
<td>19%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>8%</td>
<td>20%</td>
<td>13%</td>
<td>18%</td>
</tr>
</tbody>
</table>
is because respondents were considering this as the integration of the HR and IT functions alone, rather than the critical cross-functional role that these teams play in ensuring business continuity and stability and enabling effective cooperation between the two organizations.

The relative importance of each functional area will vary greatly depending on the transaction context. For example, in a recent asset management transaction worked on by EY, the operations remained separate for a long period post-completion. As a result, the main focus for the day one and 100-day plans were finance, risk, compliance and employee retention. Similarly, where there are redundancies or personnel changes planned soon after completion, this can require an increased focus on HR earlier in the integration.

Considerations for change in control

Every day one and 100-day plan needs to be tailored to the specifics of the deal, but the key items for consideration are consistent:

- **Legal and regulatory requirements**: ensuring that all mandatory changes are identified and delivered, such as rebranding
- **Information sharing**: achieving the rewards of making strong planning progress pre-closing while not breaching antitrust/competition laws
- **Business stability**: ensuring that there is limited disruption for, and extensive communication with, clients and employees
- **Control environment**: putting in place integrated financial reporting and a common risk and control framework
- **Organization design**: providing clarity as early as possible on senior management roles in the combined business and ensuring that talent is retained
- **Quick wins**: building stakeholder confidence in the integration by making certain small rapid changes that enable business connectivity and operational benefits
- **Confirming integration hypotheses**: firming up the operating model design and synergy assumptions which were based on limited information pre-closing

“In intra-Asian deals, the focus of integration tends to be centered around day one, with operating models tending to remain separate for long periods afterwards”

Charlie Alexander, Partner, Hong Kong
**Target operating model**

Finance, treasury and tax, as well as operations, are the functional areas that tend to be integrated the most by FS acquirers, closely followed by legal, risk and compliance. This highlights acquirers' focus on ensuring that there is integrated management and reporting of performance and risk for the combined business. The focus on operations is most likely driven by the fact that it is a leading source of potential cost synergies.

According to the survey, the likelihood of IT, HR and front-office functions being fully integrated is almost half that of the other three functions. This highlights that these are probably the most sensitive to the deal rationale.

Interestingly, the survey shows that as the deal size grows, integration of the front office and distribution tends to become less likely, while integration of the operations function increases. Therefore, on larger deals, the link between front office and operations needs careful focus given their different integration strategies.

“In asset deals the duration, scale and complexity of the day one planning and migration work is significant, while in share deals we tend to see the heavy lifting deferred until post-closing”

Michael Wada, Associate Partner, London

---

**What were the achieved levels of integration for each area?**

(Please rate on a scale from 1 to 6, where 1 = not at all integrated and 6 = completely integrated)

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance, treasury or tax</td>
<td></td>
</tr>
<tr>
<td>High integration (5-6)</td>
<td>44%</td>
</tr>
<tr>
<td>Moderate integration (3-4)</td>
<td>32%</td>
</tr>
<tr>
<td>Low integration (1-2)</td>
<td>24%</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
</tr>
<tr>
<td>High integration (5-6)</td>
<td>42%</td>
</tr>
<tr>
<td>Moderate integration (3-4)</td>
<td>29%</td>
</tr>
<tr>
<td>Low integration (1-2)</td>
<td>29%</td>
</tr>
<tr>
<td>Legal, risk and compliance</td>
<td></td>
</tr>
<tr>
<td>High integration (5-6)</td>
<td>37%</td>
</tr>
<tr>
<td>Moderate integration (3-4)</td>
<td>26%</td>
</tr>
<tr>
<td>Low integration (1-2)</td>
<td>37%</td>
</tr>
<tr>
<td>HR</td>
<td></td>
</tr>
<tr>
<td>High integration (5-6)</td>
<td>24%</td>
</tr>
<tr>
<td>Moderate integration (3-4)</td>
<td>33%</td>
</tr>
<tr>
<td>Low integration (1-2)</td>
<td>43%</td>
</tr>
<tr>
<td>IT</td>
<td></td>
</tr>
<tr>
<td>High integration (5-6)</td>
<td>23%</td>
</tr>
<tr>
<td>Moderate integration (3-4)</td>
<td>42%</td>
</tr>
<tr>
<td>Low integration (1-2)</td>
<td>35%</td>
</tr>
<tr>
<td>Front office and distribution</td>
<td></td>
</tr>
<tr>
<td>High integration (5-6)</td>
<td>21%</td>
</tr>
<tr>
<td>Moderate integration (3-4)</td>
<td>38%</td>
</tr>
<tr>
<td>Low integration (1-2)</td>
<td>41%</td>
</tr>
</tbody>
</table>
Q: What were the achieved levels of integration for each area?
(Please rate on a scale from 1 to 6, where 1 = not at all integrated and 6 = completely integrated)

<table>
<thead>
<tr>
<th>Area</th>
<th>Mean</th>
<th>Less than US$500m</th>
<th>US$500m-US$1b</th>
<th>More than US$1b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front office and distribution</td>
<td>4.49</td>
<td>4.27</td>
<td>3.43</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>4.35</td>
<td>4.69</td>
<td>4.38</td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td>4.03</td>
<td>4.38</td>
<td>4.22</td>
<td></td>
</tr>
<tr>
<td>Finance, treasury or tax</td>
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<td>4.79</td>
<td>5.13</td>
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</tr>
<tr>
<td>Legal, risk and compliance</td>
<td>4.17</td>
<td>4.64</td>
<td>4.75</td>
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<tr>
<td>HR</td>
<td>4.12</td>
<td>3.94</td>
<td>4.03</td>
<td></td>
</tr>
</tbody>
</table>

Hints and tips

Though circumstances may differ, below are the five key factors that corporates need to focus on during the long tail of full integration:

1. Target operating model. Ensure functional workstreams stay aligned to the design principles set early in the process and deliver the expected depth of integration of people, policies, processes, contracts, assets, technology and data.

2. Break the integration into phases. Don’t try to achieve all aspects of integration in parallel. Divide the program into phases and prioritize them accordingly.

3. Manage training. Be mindful of the importance of training employees in how they need to operate in the target operating model, so that the benefits of new systems are fully realized.

4. Back to business as usual. Seek to return functions and their staff to normal service at the earliest opportunity, but not at the cost of integration completion or synergy realization.

5. Optimize. During the process, start to look at how the operational performance of the combined business compares to peers and use this to identify untapped synergy potential and/or focus areas for performance improvement post-integration.
**Measuring success**

According to the survey, the top three benchmarks for integration success are delivering synergies (66%), gaining market share (60%) and delivering costs and integration milestones to schedule (57%).

While this is understandable, it points to the contradiction of 30% of companies not having a plan in place pre-signing. As synergies are seen to be higher for planned integrations, and delivered synergies one of the main indicators of success, then it stands to reason that companies should always undertake reasonable integration planning before undertaking any deal.

In terms of the most important factors, change in market share, synergies, and reaching integration milestones and costs as planned all share the top spot (23%). “We put all our attention on growing market share and delivering the synergies,”

**What metrics did your firm use when evaluating integration success?**

(Please select all that apply and the most important)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synergies delivered</td>
<td>66%</td>
</tr>
<tr>
<td>Change in market share</td>
<td>60%</td>
</tr>
<tr>
<td>Integration milestones and costs delivered as planned</td>
<td>57%</td>
</tr>
<tr>
<td>Employee retention and/or satisfaction survey results</td>
<td>53%</td>
</tr>
<tr>
<td>Client retention and/or satisfaction survey results</td>
<td>53%</td>
</tr>
<tr>
<td>Key risk indicators (fines, fraud, etc.)</td>
<td>27%</td>
</tr>
</tbody>
</table>

---

### By sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Change in market share</th>
<th>Client retention and/or satisfaction survey results</th>
<th>Employee retention and/or satisfaction survey results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset manager</td>
<td>30%</td>
<td>8%</td>
<td>13%</td>
</tr>
<tr>
<td>Bank</td>
<td>19%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Insurance company</td>
<td>24%</td>
<td>12%</td>
<td>14%</td>
</tr>
</tbody>
</table>

### By geography

<table>
<thead>
<tr>
<th>Region</th>
<th>Change in market share</th>
<th>Client retention and/or satisfaction survey results</th>
<th>Employee retention and/or satisfaction survey results</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEIA</td>
<td>15%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Americas</td>
<td>26%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>28%</td>
<td>13%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### By deal type

<table>
<thead>
<tr>
<th>Type</th>
<th>Change in market share</th>
<th>Client retention and/or satisfaction survey results</th>
<th>Employee retention and/or satisfaction survey results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic/local</td>
<td>21%</td>
<td>19%</td>
<td>12%</td>
</tr>
<tr>
<td>Regional</td>
<td>19%</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Global</td>
<td>27%</td>
<td>2%</td>
<td>8%</td>
</tr>
</tbody>
</table>
says a strategy director at a Canadian bank. “This helps us figure out how well the business has performed in accordance with the finalized plan.”

On a sub-sector level, there are interesting variations as to what constitutes a successful integration. For asset management, change in market share is ranked more highly than other sectors, with 30% of asset managers saying it is the most important metric. For 28% of insurers, synergies delivered is the most important measure of an integration’s performance, while for banks the main metric is reaching integration milestones and costs to schedule (26%).

“Synergies delivered would be the metrics that we used for evaluating the integration success,” says the VP of strategy at an insurance company in Finland. “The various synergies, including cost reduction and tax advantages, could be derived and efficiently used for the benefit of our organization.”

There were also interesting variations in relation to geography, with EMEIA corporates focusing much less on market share and more on integration process and synergies than their counterparts in other regions.

Also, there were striking differences in the measures used on global deals. There is less focus on client retention, perhaps reflecting that where there isn’t client overlap this is less of a concern, and more focus on key risk indicators, perhaps reflecting that corporates are rightly cautious about the risks associated with entering new geographies.

---

### Integration milestones and costs delivered as planned

<table>
<thead>
<tr>
<th></th>
<th>Key risk indicators (fines, fraud, etc.)</th>
<th>Synergies delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>26%</td>
<td>6%</td>
<td>24%</td>
</tr>
<tr>
<td>14%</td>
<td>8%</td>
<td>28%</td>
</tr>
<tr>
<td>24%</td>
<td>9%</td>
<td>25%</td>
</tr>
<tr>
<td>21%</td>
<td>6%</td>
<td>19%</td>
</tr>
<tr>
<td>23%</td>
<td>8%</td>
<td>23%</td>
</tr>
<tr>
<td>29%</td>
<td>1%</td>
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### Hints and tips

Below are the six key actions to consider when setting measures for success:

1. **The right measures**: track what you need to track rather than just what is easy to measure.

2. **Real-world tracking**: ensure that the measures are tangible and can be monitored on a regular basis.

3. **Stakeholder management**: acknowledge the ways in which each of your key stakeholders will judge if the integration has been a success.

4. **External factors**: calculate how to differentiate the impact of integration versus other factors (for instance, macroeconomics, customer behavior) in driving the results seen.

5. **Past and future**: balance the need for both key performance (historical) and key risk (forward-looking) indicators.

6. **Manage to a plan**: establish which milestones and events will trigger synergies and gather evidence centrally to corroborate their achievement.
By far the most challenging aspect of IT integration was “designing the future landscape” – identifying how to bring the IT applications and infrastructure of the two organizations into a common architecture – that of the acquirer, that of the target, a new third-party platform for both, or a hybrid of these options. This was cited by 27% of respondents as their biggest challenge.

Respondents noted that designing the future landscape was an especially big challenge due to the need to keep up with competitors and evolving client needs. “Various new technologies had to be adopted to keep pace with other firms in the market,” says the CFO of a South African asset management firm.

Another issue around designing the future landscape was acknowledging the increasing dependence of numerous stakeholders on IT. “Our concern was not just to integrate the existing systems, but also increasing the level of technological usage,” says the director of strategy at a US-based bank. “Times have changed, and so has the dependency on the various technologies. Customers and employees are more dependent on using technology which is faster and better.”
“Additional complexity is often driven by the existence of legacy IT issues in the acquirer and/or target, which the integration needs to address, leading to increased one-off costs and implementation risk”

Murray Falconer, Partner, London

**IT is critical**

Five key reasons why IT integration is vital and why you should consider it in your strategy.

- **Stability.** IT has a critical role in helping maintain business as usual within both the acquirer and target during the integration period. System problems can be highly disruptive, given that FS companies depend on technology to serve their clients. Any changes must therefore be rigorously tested and proven.

- **Enabling synergies.** In our experience, up to 60% of cost synergies in the business functions may be dependent on IT change.

- **Cost synergies.** IT typically represents 8% to 15% of the cost base of an FS organization and is therefore an important lever for cost synergies in its own right.

- **Compliance.** Ensuring regulatory compliance is critical to business profitability and maintaining customer trust. The role of the IT control environment in achieving this is an important one, as is the IT enablement of integrated regulatory and statutory reporting.

- **Costs incurred.** The cost of IT integration will typically be the most significant one-off cost incurred and the most likely overrun threat if not carefully budgeted and managed.
Although there is consensus across the three sub-sectors on the most important challenge for IT integration, there are some marked differences between them, too.

Respondents from asset management and insurance companies find data cleansing, testing and migration far more challenging than banks do. This may be a factor of “book acquisitions,” which are much more frequent in the asset management and insurance space. These types of acquisition are primarily data migration programs, which may be leading to a higher significance on migration and cleansing factors over other integration factors for these sectors.

Banks, meanwhile, say balancing the demands of IT integration with the day-to-day running of a business and other projects is far more challenging. This too may be a feature of the type of acquisition, whereby bank acquisitions have a greater tendency to be “big bang” integrations, which by nature put greater stress on business as usual and the existing change portfolio.

Q: What was the most challenging aspect of IT integration?

“A key concern for many corporates is determining how they can stay in touch with the market in terms of evolving customer requirements with new product and channel capabilities (for instance, digitalization) while the IT organizations are focused on integrating their existing products and platforms”

Mitchell Berlin, Partner, New York

In terms of global deals, third-party vendor negotiation and support was identified as the most significant challenge in IT integration (30% versus only 10% and 14% for domestic and regional deals, respectively). This is likely because the acquirer often does not have a local presence and is therefore reliant on working with third parties with whom they have no prior relationship.
HR integration
Retaining key talent is the most challenging aspect of HR integration, chosen by 21% of respondents. Employee relations and communications (18%) and aligning HR policies, processes and systems (16%) also rank highly.

Many respondents found retaining acquired talent a challenge due to the bond between the employees of the acquired company and the company itself, as well as job security worries. “The target’s employees were insecure about their future with the organization,” says an M&A director at a French bank. “We had to handle this issue with extreme caution.”

As is the case with IT, there are noticeable differences between banks, asset managers and insurers when setting HR integration priorities. Wealth and asset managers find talent retention (28%) the most challenging, possibly reflecting the typical concentration of client relationships and investment expertise in a small group of front-office staff.

For banks, the challenges are broader, with the focus spread across retaining talent (20%), employee relations and communications (17%) and aligning HR policies, processes and systems (17%).

Insurers, on the other hand, say aligning HR policies, processes and systems is their biggest hurdle (26% identified it as such). One aspect of this could be the need for insurers to be competitive in terms of acquiring talent and aligning different processes when it comes to integrating talent.

“To counter this, we have organized an open house where policies will be shared, questions will be answered and then terms and processes will be finalized,” says an M&A director at a Canadian insurance company.

Charlie Alexander, Partner, Hong Kong

“The significant variations in HR regulations and the competition for talent across Asia add complexity to cross-regional integrations”
The most surprising result was how low the respondents across all three sub-sectors ranked the management of cultural differences as a key challenge, given that this is often heralded as the hardest integration challenge to overcome and that 63% of respondents have most recently undertaken cross-border deals. This could perhaps be down to acquirers having learned the lessons of high-profile culture clashes in the last decade, or the fact that more deals are now acquisitions rather than mergers; in these instances there is automatically a prevailing culture to align to (that of the acquirer). We do, however, feel that in this instance the survey findings are somewhat counterintuitive and conflict with the messages we hear regularly from clients.

The challenge presented by cultural differences was twice as pronounced in deals over US$1b and deals where the target was based in a different continent.

The human question

Six key reasons why HR and people integration is vital

**People matter.** The most valuable intangible asset of an FS company is its human capital. The retention and motivation of management teams, talent and other staff in both the acquirer and the target during this period of significant uncertainty is therefore of paramount importance. Both synergies and organic revenues are at stake.

**Money matters.** Pay and reward can be an emotive topic in FS integrations, such as different front-office pay structures. If any perceived or real employee concerns are not addressed quickly, this can have an immediate impact on service levels, client retention and key talent retention.

**New design matters.** HR has a key role to play in the design of the combined organization and selection of who takes which roles.

**Regulations matter.** Employee redundancies and redeployment can be key drivers of synergy within the business. However, they need to be very carefully managed by HR to be in line with local regulatory requirements and in consultation with trade unions and works councils.
Aligning HR policies, processes and systems
Training and change management
Harmonizing compensation, benefits and pensions

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<thead>
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<th>HR policies, processes and systems</th>
<th>Training and change management</th>
<th>Harmonizing compensation, benefits and pensions</th>
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**Hints and tips**

Below are four key actions to consider when having cross-functional workstreams (for example, people and IT):

1. **Differentiate roles:** clearly differentiate within the integration program the activities centered on the functional integration of key parts of the two companies (e.g., the HR organization) versus the activities that need to be co-ordinated, directed and managed on a cross-functional basis (e.g., employee reward).

2. **Embed resources:** immerse cross-functional workstream resources as early as possible into the functional conversations to ensure early sight of potential risks, issues, and dependencies. This should also ensure alignment of considerations within individual functions with that of the target operating model design at a corporate level.

3. **Evaluate capacity:** the need for certain functions to have both a functional and cross-functional role in an integration program can stretch internal resource capacity, so this should be assessed early on and effective mitigation plans put in place.

4. **Engage third parties early:** cross-functional activities often require the support or buy-in of third parties (e.g., employee benefits providers, works councils, IT suppliers). It is important to start managing these stakeholders early to mitigate any potential roadblocks or constraints on the integration approach or timeline.

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**Cultures matter.** The culture and values of the two organizations coming together are likely to be different. HR needs to lead the design of the culture and values of the future combined business (although this may often be those of the acquirer) and then drive the program of change that embeds these over a number of years.

**Learning and development matters.** Successful integration requires employees across one or both organizations to embrace working with new policies, processes, and systems. HR has a pivotal role to play in ensuring that appropriate training and change management takes place.
Conclusions: striking the right chord

Corporates across all sectors are aware that integrations can be challenging and complex. The process is, perhaps, even more arduous for those in the FS sectors as they will have to plan and implement integration while under intense scrutiny from shareholders, regulators, customers, employees and market analysts.

And while all mergers and acquisitions will have different dynamics, we hope that the key learnings below will help integration teams bring their organization together in perfect harmony.

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<tr>
<th>Step</th>
<th>Key Learning</th>
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<tr>
<td>1</td>
<td>Start planning early and tailor to your needs. Pre-signing planning reaps rewards and is now regarded as the norm for transactions in all FS sectors. However, the type and depth of such planning should be matched to your transaction rationale and value drivers.</td>
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<td>2</td>
<td>Plan resources meticulously. Availability is not a skill. You need to secure, retain and motivate the right number and quality of resources from across both organizations in order to plan and deliver an integration successfully. Don’t underestimate the challenge.</td>
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<td>3</td>
<td>Creating value. Make sure your deal team works with the right experts in the business and IT when identifying synergies. Implementation costs are often underestimated or negative synergies overlooked. Be careful to balance synergy delivery with organic growth in both companies, which can be a more sustainable source of value in the long term. Ensure the synergy case and integration milestones are interwoven, so tracking and reporting on value created is accurate.</td>
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<td>4</td>
<td>Be patient and monitor measures. Integration is both a marathon and a sprint. While stakeholders want to see early progress against their respective agendas, full integration may take a number of years to complete. It is therefore essential to be monitoring the right measures throughout the process, to judge what impact integration is having and whether the deal rationale is truly being realized.</td>
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<td>5</td>
<td>Focus on the cross-functional activities. The most challenging aspects of an integration are often those that are cross-functional in nature, because organizations are used to operating in functional silos. The success of HR and IT cross-functional activities can therefore quickly make or break the success of the integration.</td>
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About Mergermarket

Mergermarket is an unparalleled, independent mergers and acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

Remark, the events and publications arm of The Mergermarket Group, offers a range of publishing, research and events services that enable clients to enhance their own profile and to develop new business opportunities with their target audience.

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Our TAS team leverages a dedicated, global network of professionals who are focused on helping clients drive operational value from their transactions – whether realizing synergies, maximizing deal returns or reducing operational risk. They work on the full lifecycle of integrations, from pre-deal planning through to post-deal execution in the following areas:

• Operational and IT due diligence
• Synergy evaluation
• Integration strategy
• Target operating model design
• Day one and 100-day planning
• Integration program management
• Functional workstream integration support
• Carve-out/disentanglement planning and execution

EY – recognized by Mergermarket as top of the European league tables for accountancy advice on transactions in calendar year 2014
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