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Preparing for a Tsunami of M&A in the Global Financial Services Industry

As M&A activity continues to pick up in the global financial services industry, it's important to determine driving factors and use the checkpoints listed below to ensure a smooth transaction for both your business operations and employees.

It is generally accepted that there are many countries around the world that are currently over-banked—the United States, parts of Europe (e.g. Germany), the Middle East, China, and parts of Southeast and South Asia.

We are aware of dozens of M&A bank transactions in the U.S. alone that occurred in the last quarter of 2018, and many other significant bank acquisitions that have been announced and expected to close in 2019. According to a recent Deloitte report, strong growth in M&A activity is also anticipated in Continental Europe, while the pipeline has slowed in the UK due to Brexit uncertainty. In the Middle East, over a dozen bank mergers have been announced or are currently underway.

So why now? What has changed? We believe there are several factors driving this increase in transactions:

1. Governments and regulators believe that there are too many banks and that synergies are required.
2. The cost of creating a credible digital platform and ensuring data security is costly. Smaller banks simply can't afford this.
3. There's a focus on enhancing profits. In the U.S., banks can grow geographically (state to state). In the Middle East and Asia, the motivation is cost savings.

After speaking to banks' boards, executive committees, deal teams, and human resources teams around the world, we've found that human capital plays a critical role in any merger or acquisition, especially in the financial industry. Depending on the nature of the deal, there is a lot the acquirer, or the acquiree, can do to properly prepare for Legal Day One.

During any M&A transaction, it's important to use checkpoints to ensure readiness and maintain business stability throughout the entire process. While the best practices listed below apply to organizations that are currently undergoing an M&A, there are also some factors that could apply to firms that are rumored to have potential M&A plans on the horizon.

1. To start, update and ensure you have all the critical data—and the best data, too! With a strong foundation of data, companies will be fully equipped to make the right integration decisions. This includes the obvious, like compensation and benefits benchmarking data, but also less concrete items, such as engagement and

assessment data. It is useful to make sure your own Human Resource Information System (HRIS) has been thoroughly scrubbed and is up to date.

Aligning these data sets between the two organizations will give you a big leg up on Legal Day One. A third party that holds comprehensive HR data sets should assist you with this exercise.

2. If you meet with your new partner and the relationship is cordial, agreeing on the objectives and principles of the transaction and documenting these is critical.

   It still amazes us how many project teams don't know the objective of the deal when asked this question. Whether it's for profit enhancement, cost savings, market share, RIO, etc., knowing the driving force behind an M&A deal should be automatic.

   Similarly, what are the operating and integration principles of the deal? Familiarizing yourself with these factors enables a quicker focus on integration after day one. Examples of principles could include the process of assessing and placing new positions or determining which HR systems will prevail. Considering the number of systems in a typical bank, from a job grading system to the internet banking system, can be a daunting task.

3. Communicate, communicate, communicate. People don't need to love the change, but they need to know as soon as possible what the change is and how it will impact them. As this point, they are probably thinking, who will I report to? What happens to my job? Will I have a job? Studies conducted during this period of uncertainty reveal that productivity of even your most highly engaged employees will decline by over 35%.

Overall, when talent is the key to success like it is in the banking industry, HR should be included in the deal from the start. M&A governance must be established, with the HR workstream providing the core accountability to support business success through the right talent strategies and retention of critical capabilities.

Yes, the M&A tsunami may be inevitable, but if you act carefully and follow recommended steps, a smooth transition and positive end result for both your organization and employees is definitely possible.

To learn more about M&A activity and how to prepare your firm for a smooth transition, please contact our team.

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