Navigating the next wave of bank consolidation smarter, faster, cheaper
Introduction

A perfect storm of market drivers—declining performance, digital disruptors and more—are pushing banks to consolidate. Historically, banks have made acquisitions to scale their balance sheets and broaden their branch footprints. However, buying for scale or geographic access will no longer be sufficient to be competitive in the rapidly evolving digital economy.

In particular, buying and partnering for capability is vital for regional banks that operate without the multi-billion-dollar innovation budgets that the “trillionaire” banks enjoy. Success for banks means embedding digital into their M&A approach—from start to finish.

Bankers acknowledge that innovation plays a vital role in maintaining competitiveness. Forty-two percent of the banking leaders surveyed by Accenture said that merger activity for their banks was triggered by the need for next-generation technology. Nearly 20 percent of banks said they have acquired a digital company to gain the latest talent and cutting-edge technology; 65 percent are considering it.
Our research suggests that acquiring new capabilities (43 percent) and the need for next-generation technologies (42 percent) are on par with traditional reasons for M&A (such as driving synergies with similar companies or expanding into geographic markets).

Additionally, digital leader banks are transforming their M&A approach. Our experience suggests that the more digital is embedded into the methods and tools of the M&A approach, the better banks are able to reap the benefits from M&A activity. In particular, we see two capabilities that can enhance the M&A capabilities of banks: artificial intelligence (AI) coupled with advanced analytics to drive Applied Intelligence and AI supported by robotic process automation (RPA) to drive Intelligent Automation.
Applied intelligence increases deal speed

Applied Intelligence—AI coupled with advanced analytics and human ingenuity applied at the core of business—is a key way banks can embed digital into their M&A approach. Take the time-consuming and expensive task of designing a new operating model prior to Legal Day One of a merger integration; in particular, redesign of the new organizational structure.

Gathering data in the Finance and Human Resources systems, creating and validating organizational structure visuals and identifying synergy opportunities across the many stakeholders and bank leadership can drag on integration planning and execution. AI-enabled analytics can sort through vast amounts of data—compensation, organizational trees, spans and layers, roles, location data and other people costs—to validate and visualize new organizational models quickly, including different synergy business case scenarios. It frees up human effort to focus on framing critical decisions and having the tough conversations to align bank leadership.
For example, AI-powered capabilities and tools developed and operated by Accenture helped two large North American IT organizations of vastly different size, scale and abilities accelerate their merger. We used the Accenture Org Studio to quickly and accurately model several target-state organizational options, highlighting the levers that would drive synergies and cost-to-achieve to close gaps in the redesigned organization. The Accenture Strategy Workforce Solutions, a platform-based suite of tools, helped the organizations understand which tasks within job roles were most automatable; estimate the hours of capacity available for redirecting to higher, value-added tasks and roles for their employees; and identify which new skills were trending with their industry peers.
Intelligent automation lowers deal cost

Intelligent Automation, or AI supported by RPA, enables banks to mechanize high-volume, complex, multi-step data handling with robots doing the heavy lifting instead of humans. This is particularly relevant for data entry-related tasks or systems integration activities between acquirer and target companies, centralizing and optimizing such processes.

Rather than the traditional extract-transform-load method, for example, RPA can be used for complex, time-consuming data conversion—collecting, securing and moving data from its sources into a single repository where users can more easily process and access it.

According to American Banker, First National Bank of Wynne in Arkansas is using RPA to migrate all customer and account information (including for cards, internet banking and cash management) to the core system of its acquiring bank. The process is faster, more efficient and better at reporting errors and validating data, saving the bank 70 percent in conversion costs. In another example, an Accenture client inherited over one million secondary and tertiary customer information records stored on paper records as part of the merger.
By applying RPA, these records were digitized with high-accuracy extraction, using machine learning and “human in the loop” data validation. RPA achieves higher quality (99.5 percent versus 70 to 80 percent accuracy from traditional Optical Character Recognition technologies) and faster turnaround times, which is critical in minimizing disruption to customers and reducing merger integration time and cost.

In addition to Applied Intelligence and Intelligent Automation, there are several other digital capabilities that can enhance a bank’s M&A approach. For example, interactive customer experience dashboards can help assess and manage the impact of post-close merger integration events on customers. This would include personalizing customer experiences through deeper customer profiling, scaling customer experience during conversion events through use of chatbots, communicating through new channels like social media or leveraging service design experience to optimize transition experience.

Similarly for the employee experience, banks can draw on workforce-of-the-future innovation (such as Digital HR where tools, technology and analytics infused into the workforce create a more engaging employee experience and enable the ability to quickly scale and grow with market demands) to enhance workforce integration activities or meet new talent selection criteria. Also, microservices and APIs can help banks increase speed of integration or divestiture by closing gaps quickly without having to tackle core systems development while shifting to iterative software delivery methods, like Agile or DevOps.

RPA saved the bank 70% in acquisition conversion costs
Technology unlocks M&A synergies

The synergies inherent in combining digital and M&A strategies can help banks compete. Bank mergers are increasingly dependent on cost synergies (typically accounting for 70 to 80 percent of overall synergies, based on our experience). While the top quartile for synergy run rate is around 40 percent of Target Cost Base, today’s market expectations can be as high as 50 to 60 percent. Equally important is the need to integrate quickly and accelerate synergy realization. Per current benchmarks, any integration timeline longer than 12 to 15 months post-close would be lagging (18 to 24 months was previously the norm). Intelligent Automation- and Applied Intelligence-led M&A approaches can help banks unlock even greater synergies in more efficient manner.
Build your digital M&A muscle

When banks exercise their digital M&A muscles, there are three critical things to get right:

• **Add capability to the buy decision** as expanding the footprint alone will not make the difference. Buying for capability with an emphasis on digital, new IT and talent with expertise in agile ways of working can help banks emerge as digital leaders.

• **Use new tools to execute M&A to achieve better outcomes.** New tools can increase deal speed and reduce costs, allowing bank leaders to focus on extracting greater value from deals rather than the mechanics to execute deals.

• **Elevate the role of CTO/CIO in M&A from the start.** Buying for capability and using digital in deals will require a new voice, mindset and skills. The CTO/CIO needs to be at the table from the start—during target screening and due diligence through to integration planning, execution and shaping the value of new digital capabilities that will make a difference to customers, employees and ecosystem partners.

73% of banking c-suite executives agree that the CIO should be involved from the early stages of the M&A lifecycle.
Our research

Our research shows that a growing number of banks have adjusted their M&A capabilities to support investments in digital—both as a M&A target and execution engine:

- 44% Have a different playbook
- 50% Have different valuation and cost models
- 62% Have different pre-deal team/evaluation criteria
Prepare for the next wave of consolidation

Banks that combine the right mix of inorganic plays will be best positioned to survive as consolidation pressures mount. Those which embed digital into the way they execute M&A will be able to deliver a better experience to customers and employees as well as return more value to shareholders. As a leader in digital M&A, Accenture is positioned to help banks accelerate their journeys and enhance their experiences through the next wave of consolidation.
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RESOURCES

1. Accenture Strategy Tech-Led Change in M&A research, 2017
5. Accenture Strategy Tech-Led Change in M&A research, 2017
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