BANKING M&A
THE DIGITAL FIX

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Fintech. Blockchain. Changing consumer demands. Regulation. Industry consolidation. The things that keep banking executives wide-eyed in the middle of the night are many and varied.

During working hours, they try to right the ship by bringing digital technologies to bear because digital transformation continues to be the top priority for financial institutions across the globe. From increased efficiencies to greater profitability, the digital lever is being applied with increasing frequency.

At the same time, regulatory pressure and declining performance are pushing banks to consolidate. In-country mergers are on the rise in Spain, Italy and Central and Eastern Europe, while regional banks in the United States are rapidly consolidating. Inorganic growth opportunities have made a resurgence after many years of poor deal flow due to the global banking crisis.

Banks would be wise to take advantage of this resurgence. Yet, M&A activity can distract from their own digital journeys, which are also key to restoring profitability.

As banks better incorporate digital into their operations, they also need to better incorporate digital into the M&A deals they are entering. The synergies inherent in this combination can help them competitively, so they weather the downturn with a healthy balance sheet.
M&A deals are no longer signed merely for size or scale in the banking industry. Instead, M&A is increasingly about acquiring digital capabilities as banks race to become more digital.

Fintechs have turned up the competitive heat, digital from Day One. Not only do they operate leaner than traditional banks, they have turned traditional customer expectations upside down—offering a wealth of digital options investors now see as de rigueur.

The burning platform, however, goes beyond just customer demand. Digital customers are far more valuable to banks when compared to traditional customers, bringing higher revenues and transaction volumes (See Figure 1).

Savvy banks look at digital customers through a new lens, given their volatility and value, to protect them from the disruption that post-merger activities usually generate. In 2017, one in five customers (17 percent) switched banks. The winner is generally a virtual bank; in 2016, virtual banks gained 19 percent new primary relationship customers while losing only 8 percent.
Figure 1: Digital vs. traditional customer value

<table>
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<tr>
<th></th>
<th>No. of products/customer</th>
<th>Revenues per customer</th>
<th>Cost-to-income ratio</th>
<th>No. of transactions/month</th>
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<td>(100 = traditional bank)</td>
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<td>100</td>
<td>130-140%</td>
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<td>≈400</td>
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<tr>
<td>Digital</td>
<td>120-125</td>
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Source: Accenture analysis based on major European retail bank data
In today’s environment, a well-executed traditional merger or acquisition can kill more value than a poorly executed digital one. Companies that ignore the digital implications of any M&A event will take longer to get to value, even if all other elements of the deal are flawlessly executed.

Forward-thinking banks radically modify deal shape and architecture to put digital at the center, just as they are putting it front and center within their own operating model. As they do so, we see several main decision points as key to success (See Figure 2).
Figure 2: Questions to ask to put digital at the center of your bank

**CUSTOMER EXPERIENCE**

**Brand strategy**
Should we maintain our brand or merge with the digital brand in this deal? Or launch a dedicated digital brand within our own brand?

**Digital products portfolio**
How do we create a digital products portfolio? How do we cross-fertilize between banks, leveraging the existing digital acquisition products? How do we create shared digital lead generation and campaign management capabilities?

**Customer journeys**
How do we create the right digital customer journey for various segments—mass, affluent, private, small/medium enterprises and corporate? How do we create the underlying processes?

**Digital analytics**
How do we nail digital customer analytics? How do we leverage data collection and management with a combined data set from two banks to generate customer insights?

**OPERATIONS**

**Digital governance**
Do we put digital activities in a separated legal entity versus an in-bank digital division?

**Digital operations**
How do we align digital service performance indicators between merging banks’ best practices? How do we implement end-to-end digital processes to manage sale and post-sale remotely?

**Paperless back office**
How do we share best practices in documents dematerialization and robotics capabilities in back-office operations?

**DIGITAL**

**EMPLOYEE EXPERIENCE**

**Roles and skills**
How do we define the right digital roles, and ensure the people of the two banks have the right skills in place to effectively work with the latest technologies? How do we ensure available AI capabilities are leveraged to quickly fill these roles?

**Digital HR services**
How do we craft consistent digital HR services (e.g. digital talent acquisition, learning, career management, performance and compensation) for personnel of the two banks?
Digital banks trade at a significantly higher rate than traditional ones, making it essential that incumbents move now to enter the digital era in earnest. Market data clearly shows an opportunity exists. For example, valuation multiples of digital, innovative banking players are 1.5 to 2 times higher than those of traditional banks. Fintechs go a step beyond to show multiples that are two to four times better than traditional banks, possibly because valuators are recognizing a large portion of their market capitalization based on future value.³

To boost the synergies and equity story of a merger, the involved banks should rapidly share digital best practices. For example, they can achieve cost synergies by orchestrating digital distribution up front, speeding up reduction of branch networks. Or, they can reap revenue synergies by sharing digital platforms for specific client segments. They can also use digital technologies to improve the cost of risk of the merged entity’s credit portfolio, using robotics to automate credit processes.

**Future growth value analysis: traditional, digital and Fintech**
(\% of enterprise value, 2017)

- **Traditional**: -11%
- **Digital**: 20%
- **Fintech**: 40%

Source: Accenture Research analysis on Capital IQ data, March 2017
By applying digital best practices to everything from target mapping to due diligence and deal closing, banks can make their M&A more strategic—not to mention faster and more cost efficient. A growing number of banks have adjusted their M&A capabilities to support investments in digital. And banking executives report the technology is giving them results.

**How have you modified your M&A capability to address investments in digital?**

- **62%** Different pre-deal team/evaluation criteria
- **50%** Different valuation and cost models
- **44%** Different playbook

**In which ways does technology drive M&A outcomes in your company?**

- **63%** Achieve targets/capture value faster
- **56%** Exceed synergy/integration targets
- **46%** Accelerate the deal process

Source: Accenture Strategy Tech-Led Change in M&A research, 2017
To better balance their digital strategy and inorganic growth, leading banks are doing three things:

1. **Reinvent with M&A**
   Placing an emphasis on evolving digital capabilities while growing inorganically, forward-thinking banks are redefining M&A from target screening to post-merger execution.

2. **Put digital front and center**
   In M&A integration, leading banks are prioritizing digital, decoupling digital front-end rapid evolution from back-end integration. The early focus is placed on digital customer experience, digital operations and digital employee experience.

3. **Rethink deal structure**
   Savvy banks embed digital ingredients, like new criteria for target screening and assets valuation, in pre-deal design as well as in post-deal governance. They include the Chief Digital Officer as a key member of the merger/acquisition steering committee. They ensure their bank integrates digital on the commercial front-end (“go digital”), as well as enterprise and operations (“be digital”).
While current conditions are the change motivator for many banks, technology used proactively can be a catalyst for change—empowering customers and employees to new heights. Banks that use digital as a fix for their current situation open an entirely new realm of possibility.
REFERENCES
1. Accenture Global Consumer Pulse Research, 2017
3. Accenture analysis based on Capital IQ data and Bloomberg, January 2018

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