In this paper, we will examine how the right choice of System Technology in Domain Integration plays a vital role in successful Post-Merger IT Integration.

Introduction

As an anchor of post-merger integration process, IT plays a significant role. The success of the integrated company depends greatly on how well the IT Integration is accomplished. This can be achieved by considering different aspects of the IT landscape such as Approach on Domain Integration, Application and Technology Rationalization, and Infrastructure Consolidation.

First, this paper provides an outline on how the business objectives of the merging banks impact the approach to System Integration.

Secondly, this paper provides an overview of how the understanding of different domains and theirs
mapping in the merging banks are necessary to develop a framework in System Integration.

Thirdly, this paper provides a detailed study on the factors influencing the choice of technology and how to pick the best fit.

**How Business Objectives Impact System Integration?**

The right way to integrate IT systems depends on the type of merger and the combined business objectives of the merged organization. Companies merge for a host of reasons — to cut costs, growth, enter new markets, and capture synergies. In our experience there are five general approaches to integration that offer the best results for the right situation

- **Loosely Coupled:** Remain separate and fragmented; modify reporting for consolidation purposes. This approach is appropriate when the companies are independent entities within a larger conglomerate, and most viable when there is extreme time pressure.

- **Select One:** Select one of many IT setups that is most aligned with combined business strategy. This approach works best if there is significant discrepancy in size. It is the fastest method for reducing costs. The architecture direction defaults to Company X as a day-one solution.

- **Best of Breed:** Choose the best of available setups with an eye on architectural direction. This is the best approach in a large-scale "merger of equals" or with entities with different business models across the combined organization. It can be time consuming but functional.

- **Replace All:** Phase out "legacy" systems and setups. This approach works best when point-specific solutions are poor in both companies and new software is easily integrated. It can be time-consuming in selection and implementation.

- **Outsource:** Phase Spin out systems issues to a third-party that is aligned with the architectural direction. This approach is advantageous in mergers where there are large size discrepancies, repeated acquisitions and poor internal IT skills. Here, "economies of learning" from several mergers reduce integration time.

**How an Understanding of Banking Domains and its Mapping in the Merged Banks is Vital**

There are different types of banking functions which a bank performs. They are Retail Banking, Commercial Banking, Investment Banking, and Private Banking. From an IT perspective these are called the different domains of banking.

It is necessary to understand that Mergers and Acquisitions need not always happen between the banks handling identical domains.

The possible scenarios of domain mapping between the merging banks are as follows:

- Acquiring bank handling more domains than the acquired bank and are discrete
- Acquiring bank handling more domains than the acquired bank and there is an overlap
- Acquired bank handling more domains than the acquiring bank and are discrete
- Acquired bank handling more domains than the acquiring bank and there is an overlap
- Both the banks handling identical domains

Based on the above listed scenarios the Acquiring Bank performs either of the following

- Collaborates the overlapping domains retaining all the processes
- Collaborates the overlapping domains removing certain processes
- Drops a domain from acquired bank
- Drops a domain from acquiring Bank
- Adds a new domain from the acquired bank
The right way to integrate IT systems depends on the type of merger and the combined business objectives of the merged organization. Companies merge for a host of reasons – to cut costs, growth, enter new markets, and capture synergies. In our experience there are five general approaches to integration that offer the best results for the right situation.

Let us now see the impacts of the above listed activities on IT System Integration.

- **Resource Allocation and Skillset Mapping:** Based on the domains decided it is necessary to acquire the right people with the right domain skills to carry forward the upcoming merger related changes.

- **Critical Process Identification:** There are certain domains in the banking sector (For e.g., Retail) where the complexity and criticality of the process is very high. When these domains need integration or addition during the merger it requires a higher number of resources as well as quicker implementation.

- **Road Map on Implementation:** Based on the criticality and complexity of the domain and its business process, the future integration cost, phases of release if any required, the duration of implementation can be decided. The identification of domain plays a vital role in determining the System Integration Cost and the Software Development Methodology - Agile or Waterfall.

- **IT Reorganization:** Domain Mapping between merging banks helps to identify duplicate workers and roles in each domain and helps rationalize development and key resources within each domain. It also helps to identify key skills and competencies required.

- **Geography of Operations:** Based on the domains identified and the current location of operations, the future place of operations can be determined. For e.g.: Bank A has acquired Bank B. Bank A and Bank B have a common domain active and running. Bank A is located in a place where cost of living is higher than Bank B. Then, the geography of operations could be moved to Bank B. This impacts System Integration in identifying the infrastructure, resources and skill competencies.

- **Streamlining Applications:** By identifying the domain and overlaps in the merger, it becomes easy to dig into each domain separately and rationalize applications and projects, integrate resource planning systems, reduce maintenance and contract duplication.

From an IT Perspective, any integration that happens ideally happens within discrete domains. Thus, isolating the domains and identifying the overlaps during the merger forms the basis for Rationalization of the business process and System Centralization.

Each Business Process pertaining to every other domain in banking sector is mapped to functionality in one or more of the applications. The Business Process framework mapped to the IT framework helps us to identify and categorize the application Portfolios into three namely: Retire, Retain, Re-Engineer.

**Retire**

Applications of lower business value and/or there is an equivalent efficient application can be retired.

**Retain**

Applications of higher business value and highly critical nature will be retained.
Applications of either low business value and high criticality or higher business value and less critical or both critical and holding high business value yet outdated, need to be re-engineered. The criticality of the application determines rollout strategy.

Solution: Cross functional training and new technology training will pave the way for existing resources to scale up with minimal cost.

- **Geographical Differences**: If the acquired and acquiring company are situated in different geographical locations, the time zone differences and people interfacing problems will impact the new/superior implementations severely. This in turn forces mergers to stay loosely coupled and go with the existing technology rather than re-engineering them.

Solution: Encouraging frequent visits and video conferencing and desktop sharing often will enhance the interactions, which in turn will eliminate gaps and discrepancies, paving the way for developing concrete solutions.

- **Technology Ecosystem**: The tendency to stay within the comfort zone of interacting with the same technology partners and vendors, limits the opportunity to explore the latest technologies. This is fulfilled further by the acquiring company's monopoly in taking the lead.

Solution: Finalize the Technology Ecosystem that will suit the post-merger needs and devise a roadmap to incrementally implement the newer ecosystem, phasing out the older ecosystem gradually and simultaneously.

- **Existing Contracts and Licenses**: The long term contracts and licenses related to software and Service Providers that are already in place restricts the mergers from discovering and adopting the ideal products.
**Solution:** Strategize to end the nearly expiring contracts or licenses that provide outdated solutions immediately and bring in best quality services right away. Formulate a roadmap to identify later expiring contracts and foresee their future scalability and then decide on engaging or disengaging them. This way technology rationalization can be brought about efficiently.

The tendency to stay within the comfort zone of interacting with the same technology partners and vendors, limits the opportunity to explore the latest technologies. This is fuelled further by the acquiring company’s’ monopoly in taking the lead.

**Making the Right Choice and Adopting Best Practices**

From an IT perspective, the following are the best practices that need to be followed in any System Integration, in order to attain success.

1. In a merger, when both the companies make use of identical software/applications choose over the higher version

2. In a merger, when both the companies are making use of different technologies for the same domain, succumb to the one that is scalable and robust

3. Whenever it comes to re-engineering, it is always advisable to have long term plans and solutions. Follow either hybrid or agile approaches in software development.

4. Before legal day one, it is necessary to identify the account data, application, infrastructure and staffing needs to devise the roadmap for the post-merger System Integration.

5. Design a Risk Analysis Framework that mitigates operational risk through proven practices, techniques and past experiences. A thorough risk analysis effort will identify the issues and allow the integration team to quickly address the issues.
6. Look for nuggets. Nuggets are isolated applications that can prove to be absolutely necessary for continuing certain services or sustaining a specific competitive advantage.

7. When in stalemate situations where the merger banks as well as their service providers are unable to come to a solution, grab a Third Eye to look at the integration from a different perspective. This will help bring out an optimal solution.

8. Follow this order in System Integration: Remove redundancies, keep nuggets, domain integration, reorganize and re-engineer, identify geography of operations, unify infrastructure, data center migration.

Follow this order in System Integration: Remove redundancies, keep nuggets, domain integration, reorganize and re-engineer, Identify Geography of Operations, Unify Infrastructure, Data Center Migration.

Conclusion

Information Technology is extensively considered a vital resource and an enabler in the business model of modern banking. Consequently, the IT constituent is a very important element of the post-merger integration, often supporting the realization of a significant part of the projected Merger & Acquisition gains. Key success factors of the M&A in IT integration process includes a clear link between the business strategy driving the merger and the priority of the IT integration tasks, availability of experienced and motivated staff, and completion to the right standard as quickly as possible, even as the main constraining factors are overly aggressive targets and quality of management decisions.

The feature that distinguishes the M&A IT integration in banking from other types of IT integration processes is the need to prioritize the IT integration tasks to support the business operations post-merger as quickly as possible, and then accommodate the full integration of the IT assets, potentially spanning years following the official completion of the transaction.
About the Author

Srivatsan Vijayaragavan is a Manager-Projects with Cognizant’s Oracle Solution Practice. He has more than 12 years of experience in PeopleSoft Financials and Supply Chain Management. Srivatsan has worked extensively in Commercial, Investment, and Retail Banking domains. He may be reached at Srivatsan.Vijayaragavan@cognizant.com

References

http://en.wikipedia.org/wiki/List_of_bank_mergers_in_the_United_States
http://www.crowehorwath.com/industries/banking/m-a/m-a-integration.aspx
http://www.bankingtech.com/294992/mergers-and-acquisitions-dont-forget-your-back-end/
https://www.newyorkfed.org/research/staff_reports/sr143.html

About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world’s leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 100 development and delivery centers worldwide and approximately 255,800 employees as of September 30, 2016, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.