

#Valorem Insights



*“Anticipate the future,
disrupt the present”*

Post Merger Integration

*A complex challenge to align the
operational implementation with the
strategic goals*

Capital market use case

**#Research
#Thought
#Solution**

>> The key principles to address a post M&A integration challenge

Since the post financial and economic crisis 07-08, the financial institutions are adapting their business model to:

- a. Focus on the core business
- b. Adjust the internal organization
- c. Comply with the increasing regulatory requirements

Cost control, operational efficiency, continuous improvement and synergies become more and more targeted *to keep operating expenses at a low level and to monitor the net income.*

In parallel, the *customer experience focusing strategy* and the *emerging new technologies* drives financial institutions to rethink their strategy.

To focus on their core value and to build a strong business and operating models, the financials institutions are reducing or closing out the more risky activities and less profitable ones.

These challenges impact the whole international banking system and as a result, *many players sold or outsource the non-strategic business and/or integrate a new activities and organizations.*

The Financial institutions are more inclined to consider merger and acquisition opportunities as a strategic lever.

But, how to ensure a deep alignment of an M&A initiative with regards to the implementation challenges (processes, organization, IT and legal) to ensure a successful integration process and meet the expected goals?

>> We believe that the 'G4C principles are required to handle a successful integration program:

- Governance;
- Commitment;
- Communication;
- Change management;
- Cultural management.

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Governance: it is an important pillar which require a close attention to set a well-designed program governance and sponsorship. The main objective is to ensure that all the main stockholders and decision makers from the two organizations are represented.

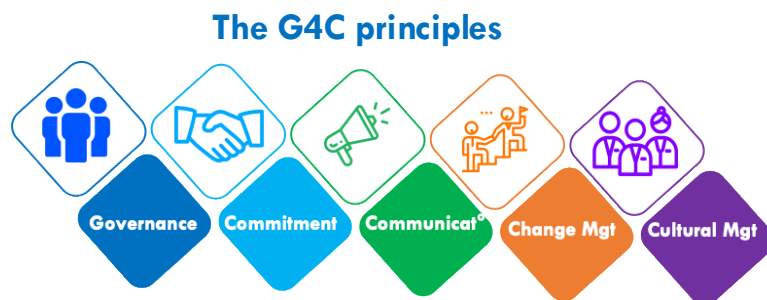
NB. Sponsorship and leadership: the program sponsor(s) has an important role to follow the major deliveries and millstones. The leadership and the negotiation skills can be highlighted as the key success factors to solve some possible disputes situation.

Commitment: the projects and operational teams should share the same view regarding what and when to deliver and be aligned on the task repartition.

Communication: the most challenge that the program manager should arise is communication, communication and communication. The internal & external communication of the integration objectives, the ongoing actions and the next steps are important to emphasis the strategic direction, to promote the achievements and to maintain the commitments.

Change management: the workshop meetings, the training sessions, the best practices and knowledge sharing are central and on the heart of a successful integration accomplishment.

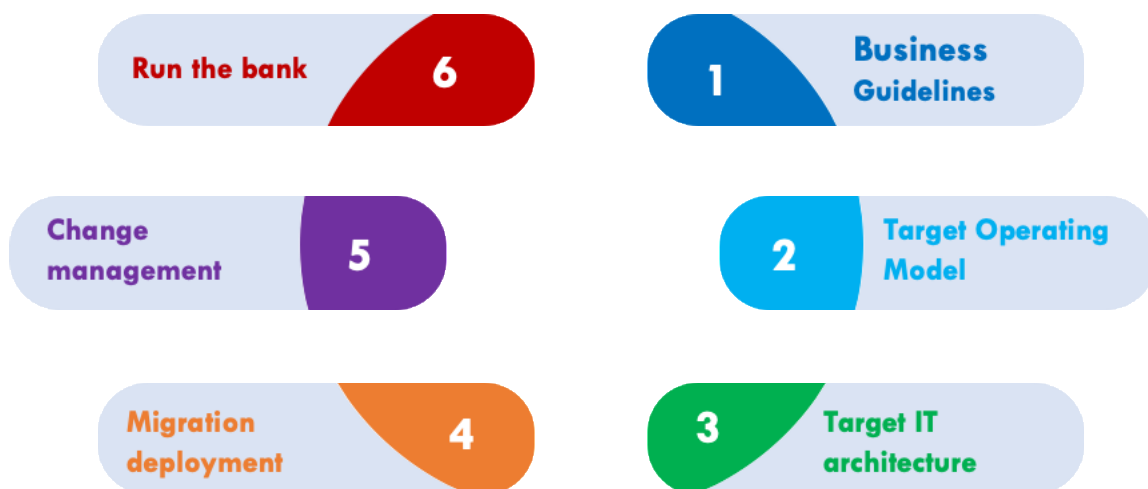
Cultural management: in general, the teams involved are likely to be multicultural especially when the M&A program is handled within an international organization. This cultural dimension should be taken into account to create a positive work environment.



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The integration process framework can be seen as a transversal initiative which can be split on several streams to cope with the organization features, processes and information technology systems.

An integration program card have to be set to define the high level items, the most important milestones and the teams involved and responsible for the delivery.



A. Organization, Operations and Processes (OOP)

Scope matrix definition: it gives a global and detailed overview on the business lines, geographic zones, products, processes, systems, teams and expected deliveries.

Gap analysis: the As-is end to end processes modeling (FO to Finance) and the target functional architecture design is an important step to prepare the integration implementation.

The gap analysis objective is to validate the solutions that will be deployed.

Several kinds of gap can be observed regarding the *trade booking workflow, accounting methods, internal controls, risk assessments, collateral management, applicable law and tax, regulatory, market abuse monitoring, valuation models, business continuity plan, and department roles & duties segregation.*

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Detailed process description: it needs a deep commitment of operational teams. All the target processes must be described in detail and validated by them. For this reason, they should be informed and involved at the earlier stage of the program. The validated set up will impact their day to day production.

The integration or merger program is also the opportunity to set a benchmark and review the existing operational, IT and organizational models.

- FO market access: membership, Direct Market Access (DMA), broker;
- Market connectivity;
- Manual vs. straight processes;
- External vs. In house systems;
- Duplicate control levels;
- Reconciliation processes;
- Accounting close set up;
- Trade confirmation: verbal affirmation vs. electronic confirmation;

- Custody & clearer fees;
- Master Confirmation Agreement (MSA): applicable elections & standards (International Swaps and Derivatives association);
- Process owner, the necessary workload to perform each process.

B. Information system and data migration

The integration of new organization and activities creates IT needs development and adjustments to well process the migration data. Therefore, an IT migration plan and test strategy definition is an important stream to address within the post M&A program road map.

The 4 main streams



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C. Legal and contractual framework

The integration program has a strong impact on the duties and the responsibilities repartition between departments which should be contracted in a Service Level Agreement document. The SLA is set in order to describe:

- the services provided;
- the role and responsibilities;
- the dispute resolution process and the applicable law;
- the Key Performance Indicator (KPI) to evaluate the services quality;
- the fees invoiced to perform the provided services.

D. Risk and dependency

As the post M&A integration program have a transversal impact within the organization, the potential dependency regarding the other strategic initiative should be identified and closely followed up to manage the critical path.

Technical specific skills are required to perform and manage some items.

E. Monitoring

A central coordination team -Program Management Integration- is accounted Vis-a-Vis the sponsor and the program board. It is responsible to deliver the integration program on time according to the cost assigned and the quality expected. A transversal knowledge on the capital market industry with a strong skills on the end to end trade processing are required.

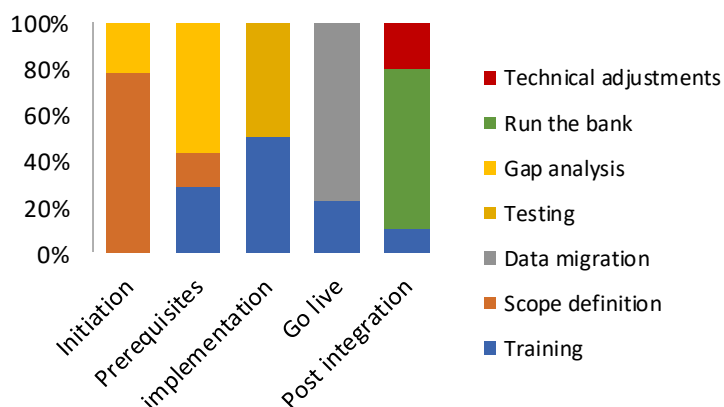
F. Implementation timeframe & planning

The integration go live timeframe should be carefully planned and validated with all the stockholders.

The resources should be available and systems up and running.

All the tasks expected should be detailed and shared with the teams involved.

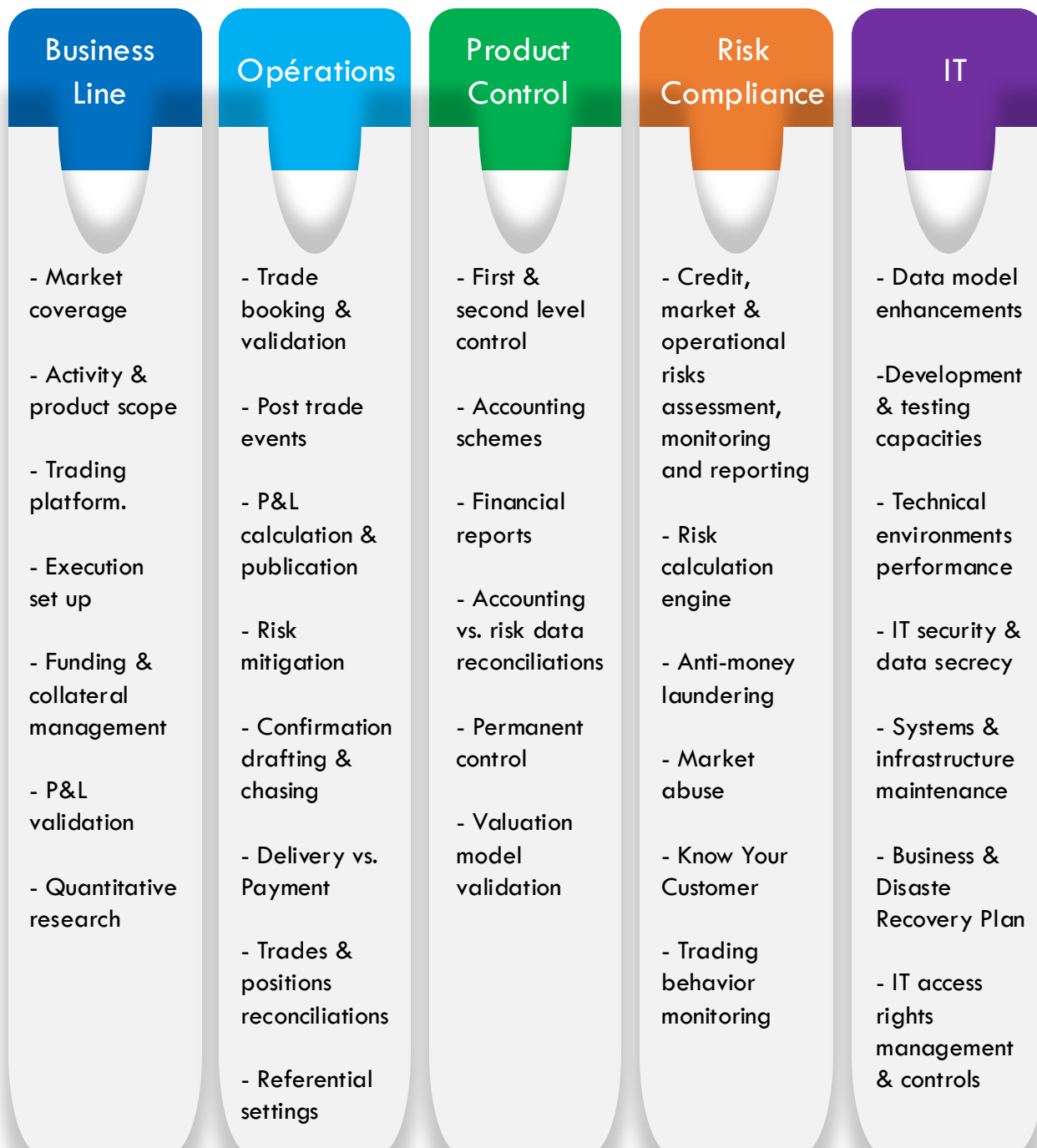
The workload repartition during the integration cycle



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G. Duties & responsibilities overview

A full post integration process has a significant transversal impact from across the organization. A single point of contact (SPOC) for each business line, department and process is required to ensure all processes mapping and the deliveries follow up.



H. Post integration monitoring and follow up / Closing out

The Post go live of an M&A program require a close follow up to monitor the operational and IT incidents which may happen during the first weeks in order to tackle it.

A change management effort should be maintained to support the end user on their day to day tasks.

The M&A implementation program is a transversal initiative from across the organization. It's arise organizational, operations and information technology challenges.

The integration of a new organization and/or activity is the opportunity to adapt the operating model.

The G4C rules (Governance, Commitment, Communication, Change & Cultural management) are the key successful factors to achieve the post M&A integration.

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