MAY 22
Jenna McNamee

Banks that acquire other banks must take care in merging together tech stacks

Article

The news: Three bank failures have led to three acquisitions. Now, the acquiring banks must figure out how to merge two sets of clients, two differing employee cultures—and probably the most risky, two technology stacks. **Here's what any bank should think about when planning for a tech stack merger,** per American Banker.

Make a plan: A bank merger requires serious planning, but creating a rigid, step-by-step years-long agenda isn't the way to go. Banks must create a plan with a clear long-term vision that's also flexible enough to change with technology, according to consultants from Forrester.

- Devising the plan takes time. **First Citizens Bank**, which acquired **Silicon Valley Bank** in March, still operates SVB's tech systems separately. Because the deal was put together quickly, First Citizens is taking the time to carefully lay out its merger plan.
- **JPMorgan**, which acquired **First Republic Bank** in May, also said the two banks' technology platforms will operate separately, and that the merger would occur slowly over time.
- Similarly, **New York Community Bank**, which acquired **Signature Bank** this year and **Flagstar Bank** late last year, said it will spend the remainder of 2023 planning out how it will combine all of these banks' technology.

But keeping the tech platforms separate for an extended period of time has drawbacks. If both banks offer similar lines of business, keeping them separate could delay cross-selling opportunities until the consolidation is complete, according to consultants at Cornerstone Advisors.

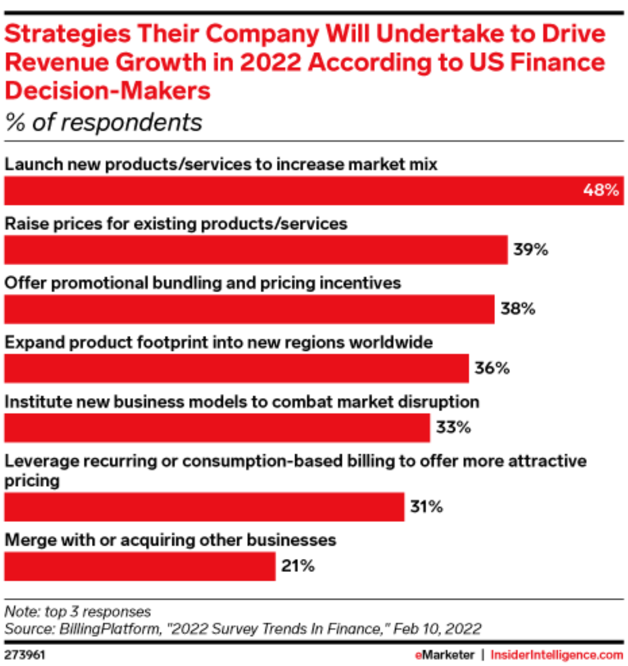
Focus on the riskiest pieces: A tech stack merger carries considerable risk. If it fails, the bank can take a huge reputational hit and suffer dented customer loyalty. That's why banks should dedicate a lot of time and energy to those areas that most affect customers.

- Those areas include online banking, credit and debit card capabilities, and core infrastructure, since a misstep here could greatly affect customers, per Cornerstone.
- Banks should also consider bringing onboard the acquired bank's full tech stack. Trying to piece together two sets of technologies can decrease efficiency and increase costs. It also drastically escalates operational risk.
- When it comes to execution, banks should go live in phases, so that not all customers are affected in the event of a glitch or error. Banks should also maintain their old operating systems for a period of time after the switch as a backup if something goes wrong.

Employees are key resources: Merging two employee cultures is difficult, and long-term employees of the acquired bank who find new jobs present a major risk to the tech merger process.

- Typically, the longest-tenured and most knowledgeable tech employees quickly find new jobs after a merger, per Forrester. Acquiring banks must work at retaining these employees who are vital to the post-merger tech consolidation.
- These employees must feel empowered to lead the tech integration and see that their ideas and opinions are valued.

The bottom line: Banks undergoing a tech stack merger, or even a technology upgrade, must plan for all scenarios before execution. They only have one chance at getting the transition right, and customers won't let them forget if they get it wrong. Having a well-thought-out plan that's flexible and timely will prevent a bank from becoming the next **M&T Bank** or **Truist Bank**—both of which suffered from the repercussions of bad tech mergers.



*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*