

Securities Industry News

Securities Industry News Interview

Banks have mixed records acquiring brokerage firms. Philip Panaro, managing director of the financial services M&A group at IM2 Consulting, has advised financial institutions on integrating acquisitions for the last 18 years. He provides some major points for bankers and retail brokers to keep in mind when integrating their operations.

BIM: What's the biggest challenge of merging a brokerage firm with a bank?

Panaro: It's a difficult balance between leveraging the brokerage firm's activities into the bank without losing the identity the brokerage has worked very hard to obtain over the years. Generally, the bank holding company will let the brokerage firm keep its name because it's important to maintain the firm's market identity and to retain clients. These clients are accustomed to higher service expectations from their brokers versus what the banks generally provide. However, the biggest concern is how to maintain that service level instead of the brokerage customers becoming just another one of the bank's numerous customers. So the question becomes how to get the costs out of the merger and leverage the businesses without reducing service levels, responsiveness and turning the client into just another account.

BIM: Brokers have been known to leave their firms in mass after being acquired by a bank. Can the bank lose brokers and still consider the merger successful?

Panaro: Because there is such a connection between brokers and their clients, retention is at the forefront. The question is whether the bank can recognize differences in compensation and culture at the brokerage. One bank I worked with bought a brokerage firm specializing in technology listings. The acquirer was successful at identifying the value by leveraging the benefits and making the brokerage firm's research available to the bank's significantly larger client base. So the bank and its clients both benefited. The bank didn't spoil the soup by throwing its management on top of the brokerage people significantly when it was necessary to extract the value.

BIM: How does the bank get the best of both worlds?

Panaro: The bank has to create a composite model of what the merged firm will look like. The composite model is made up of structures currently not inherent in either company in the merger. The optimal model is where the merged company gets the best of the former company as well as creates new benefits it didn't have previously. Therefore, it is in the bank's interests to leave the human capital portion of the brokerage firm alone but seek ways to leverage the two sides products and services and clients. In addition, the bank should look for ways to reduce infrastructure costs by reducing duplicate data centers, network, databases, systems and redundant operations.

BIM: What signs should brokers of an acquired brokerage firm look for to suggest the bank is integrating the merger effectively?

Panaro: First, the bank should have a core purpose for why it is pursuing the acquisition, like seeking a retail brokerage presence. The bank should also lay out early on where it believes it should be in six months, a year and two years how it plans to migrate the bank's capabilities to the brokerage customers and vice versa, the expected return on equity and customer retention. The merger life cycle today is doing the due diligence on the merger, announcing it, integrating the companies and then the change in control. In the past five years there has been a strong trend to integrate as much as possible, maybe as much as 60%. This has been accomplished by transferring the acquiree's position onto the acquirer's systems and processes on the change of control date.

BIM: How can banks recognize if brokers are satisfied with the merger?

Panaro: Satisfaction is determined by looking at broker retention, customer retention and monthly productivity of brokers. These statistics are reported monthly at most brokerage firms.



BIM: How does a bank begin cross-selling banking and brokerage investments and services?

Panaro: First, the institution must outline what makes sense to cross-sell and what the client benefits will be. Then, they need to design a strategy about how to cross-sell the investments, including what the incentive programs will be to support the cross-selling activity. The second part includes integrating the relevant technology systems and providing training about the products, which takes time. If the broker doesn't understand what the investments are or is not rewarded properly, they won't sell them.

BIM: Can a bank expect brokers to sell banking investments and services?

Panaro: Incentive plans should provide benefits to every one involved in the sale of banking or brokerage products. So any individual contributing to the sale gets a piece of the commission. A lot of banks try to get away with cross selling investments and services without providing incentives, but they're coming to the conclusion that doesn't work. Incentives must be provided. It's simple human nature to motivate behavior!