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Five Essential M&A Communication Strategies to *Retain Acquired Account Holders*

Merger and acquisition (M&A) activity in the banking sector has remained steady during the past couple of years. In 2014, there were 385 bank M&As[1] and 247 credit union M&As[2]. This level of activity is expected to continue throughout 2015, with 50 percent of recently polled financial institutions hoping to merge with or acquire another.[3]

Retaining acquired account holders is key to any successful M&A. However, financial institutions are particularly vulnerable to account holder attrition in the period following an M&A announcement. In fact, customers from acquired financial institutions leave at a higher rate than the industry average – 8 percent versus 5 percent.[4]

In the midst of a major transition like a M&A, account holders have to know that they are valued and how they will benefit from the changes, or they will leave — taking many high-end assets with them. Attrition rises to 10 percent, twice the industry average, when the subsequent financial institution has low customer engagement. Conversely, when the acquiring bank has higher customer engagement, the attrition rate on the target bank falls to 6 percent.[5] The right communication strategy can help new account holders feel welcomed, valued and assured, increasing the likelihood they will remain with their new financial institution.

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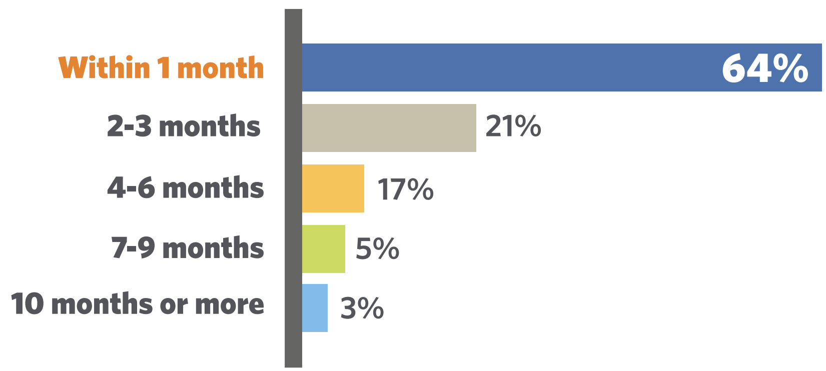
Time Before Account Holders Switch Financial Institutions



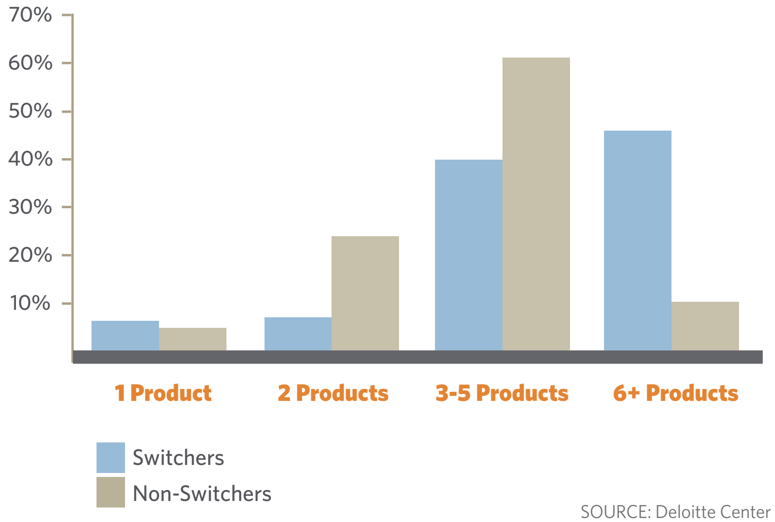
SOURCE: Deloitte Center for Banking Solutions Survey

[1] Federal Deposit Insurance Corporation (FDIC), *Report of Structure Changes*, April 15, 2014
[2] National Credit Union Administration (NCUA), *Credit Union Merger Data*, April 15, 2014
[3] Bank Director, *Growth Strategy Survey*, 2015
[4] Gallup Business Journal, *Bank Mergers May Chase Away Customers*, June 2, 2015
[5] ibid

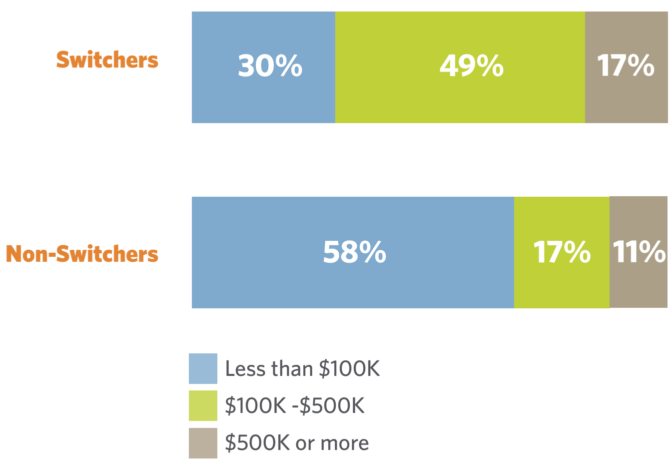
Financial institutions generate a significant portion of their profits from a select 10 to 20 percent of account holders with whom they have a greater share of wallet. Fully engaged account holders contribute 37 percent in annual revenue. They also purchase twice the number of investment, insurance and advisory products.[6] Unfortunately, these are also the account holders most likely to switch financial institutions following a merger or acquisition. Sixty-six percent of them have more than $100k in investable assets, compared with 28 percent of non-switchers with that level of assets. The loss of these high-value account holders can have a negative affect on the anticipated bottom-line value of a merger or acquisition.

Share of Wallet & Investable Assets of Switchers v. Non-Switchers

Number of products by customer type



Overall investable assets



SOURCE: Deloitte Center for Banking Solutions Survey

[6] Gallup Business Journal, *Bank Mergers May Chase Away Customers*, June 2, 2015

Sixty-six percent of the highest valued post-merger switchers have ***more than $100k in investable assets.***

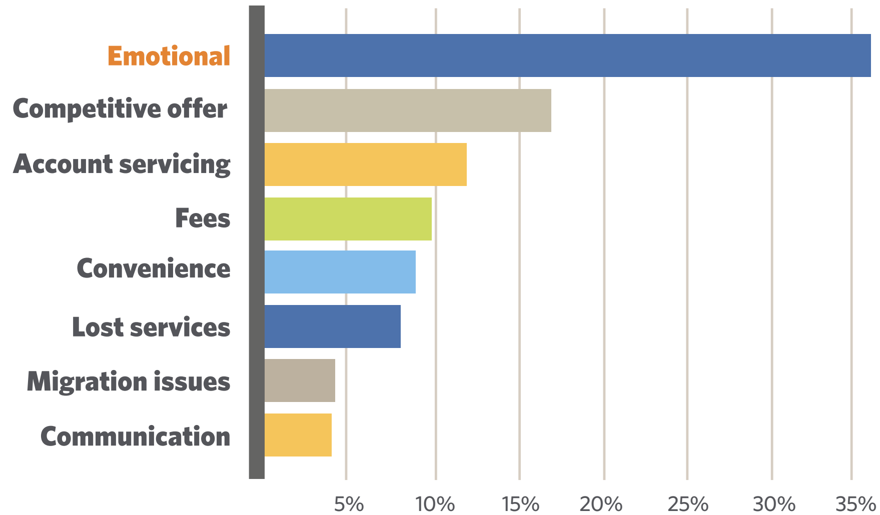
Why Account Holders Leave

In order to proactively address their concerns and minimize attrition, it's important to understand why account holders leave after a merger or acquisition. Interestingly, account holders most frequently cite emotional — not financial — reasons for switching financial institutions following a merger or acquisition. These reasons include:

- Lost trust or confidence in the new financial institution
- Account security concerns
- Not feeling valued by the new institution – lack of care or concern for them
- Loss of personal relationships with employees at their former institution

Not surprisingly, account holders are also lured away by offers from other financial institutions, an indication the acquiring financial institution may not have given the account holder compelling reasons to stay. In addition, many account holders perceive a decline in service when their financial institution is acquired, especially in call center service.[7]

Key Drivers for Switching Financial Institutions



SOURCE: Deloitte Center for Banking Solutions Survey

[7] Deloitte Center for Banking Solutions, *Beyond Day One: Minimizing Customer Attrition During Bank Mergers and Acquisitions,* April 2010

A good communication strategy includes an initial announcement at least 180 days prior to a conversion, and prior to media announcement.

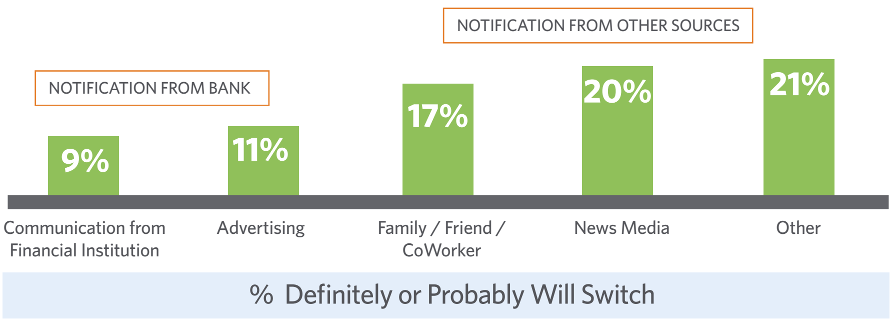
Strategies for Success

Fortunately, there are ways to combat attrition in the wake of a merger or acquisition. Consider these five communication strategies to help you retain account holders.

1 Communicate Early

A good communication strategy begins well before the anticipated M&A completion date and includes an initial announcement at least 180 days prior to the conversion date. When account holders receive notification of a pending merger from an outside source, such as the media, 20 percent state they "definitely or probably will" switch banks. But when they receive notification directly from their financial institution that number dropped to nine percent. Communicating early enables financial institutions to be proactive and ease account holder concerns about the transition. It also gives the financial institution time to fully explain how account holders will benefit from or be affected by the merger or acquisition, and communicate with them about any coming changes.

Impact of Notification on Intended Attrition



SOURCE: JD Power and Associates, *Mergers and Acquisitions Study*

2 Communicate Internally

It's important to address internal communication early because frontline staff plays a critical role in addressing account holder concerns following a merger or acquisition. They are your first line of defense in retaining account holders. Staff should not only be informed about the details of the M&A, they should also be trained on how to communicate these details to new and existing account holders. When employees feel confident and informed, they are more likely to inspire confidence in account holders.[8] So not only does effective internal communication prepare employees to effectively manage both existing and new account holder relationships, it also supports account holder loyalty.[9]

When employees feel confident and informed, **they inspire confidence in account holders.**

3 Communicate Frequently

After the initial announcement period, monthly communications are important to keep account holders abreast of developments, timing and changes. And account holder communication should not end just because the M&A is complete. Frequent communication during the one-month, post-M&A period is also critical to help account holders feel welcome and address any concerns that may prompt them to leave the institution.

4 Communicate Consistently

Strategic coordination of all communication activity is key to ensuring account holders receive consistent messaging. Uncertainty and confusion can occur when account holders receive inconsistent messages, which may drive them away from the financial institution. Consistent communication helps inspire confidence and can make account holders more comfortable with remaining with the financial institution post-merger. Integrating a "playbook" that outlines messaging and talking points can help ensure that everyone – from the CEO to branch staff is clear and consistent when they communicate with account holders and other stakeholders.

[8] Deloitte Center for Banking Solutions, *Beyond Day One: Minimizing Customer Attrition During Bank Mergers and Acquisitions*, April 2010

[9] Bain & Company, *Keeping Customers First in Merger Integration*, 2011

5 Communicate in Multiple Channels

It's important to know account holders' preferred communication channel and be prepared to communicate with them through that channel. Account holders interact with their financial institutions in a variety of ways – via branch locations, online and mobile banking, social media, call centers, etc. Thus, financial institutions need to use a multichannel approach in M&A communications to ensure they consistently reach account holders. "Push-style" communications like direct mail and e-newsletters provide additional opportunities to reach account holders. Call center activities — both inbound and outbound — are especially important, as this may be the first interaction account holders have with the acquiring financial institution. Having the capacity to efficiently and effectively manage the increased call volume that comes with an M&A transition can set the tone for the acquired account holders' relationships with the new institution by delivering a positive brand experience.

Mergers and acquisitions offer unique opportunities and challenges for financial institutions. Timely, thoughtful and consistent communications can address account holder concerns and help them feel valued by the new financial institution. As a result, they'll be less likely to leave during the transition and the acquiring financial institution will be better positioned for success.

To learn how Harland Clarke can help your financial institution ensure a smooth M&A conversion,
call **1.800.351.3843**,
email **contactHC@harlandclarke.com**,
or visit **harlandclarke.com/M&A**.

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