Mergers And Core Conversions: Where Assumptions Go Wrong

BY SABEH SAMAHA
FEBRUARY 18, 2013

RELATED LINK

A Dozen California Credit Unions Reach Deal To Save 20% On Tech

The nature of mergers has changed. For the larger, acquiring credit union, there was a time when mergers meant more opportunity, a bigger book of business and growth into a new region.

Today, mergers are happening more so out of necessity with the NCUA looking to avoid the complete dissolution of a failing credit union. As a result, key components are often overlooked due to misconceptions.

The Core Misconception

The technology end of mergers and conversions is a major undertaking for all parties involved. The biggest misconception we see is that like operating systems make for an easier merger and conversion. While this is true from a workflow and training perspective, from a core operating perspective this assumption is wrong. Why? Regardless if the existing core operating systems are from the same provider, they are configured differently. When they are merged they collide, impacting numerous functions affecting internal operations and, worse, member confidence.

Let's say both credit unions are using the same core processor. It is not as if each system is an exact replication. Rather, each core system is different. What we find is that without guidance, credit union executives rightly look at the business opportunity presented in a merger and when they see the same provider for the different technologies, they wrongly assume that the conversion process will be seamless. It's quite the opposite with numerous challenges presented.

The Cost and Vendor Misconception

It is also wrongly assumed that pricing will be reduced when two similar operating systems with the same third-party vendors are merged. When there is more than one vendor involved, credit unions have the ability to negotiate the contract moving forward, which is an all-important process of the conversion process. In fact, what we find is that having the same third-party vendor can actually make the process more difficult and costly. All too often though, credit unions executives become complacent during the merger and conversion process. This familiarity breeds contempt. To this end, the old adage is appropriate for executives: knowing just enough to be dangerous.

Let's say there are two identical racecars. The mechanics, tires, brakes, fuel, etc. are identical. The difference is the drivers. When these cars race, they will not cross the finish line at the same time because the drivers operate the vehicle differently. In the same manner, identical core operating systems located in two different locations will not perform the same, because of the different parameters of the respective credit union. Understanding these variables allows a credit union to be proactive and cost-effective.

The Timing Misconception

Whereas a small merger can take four to six months, a larger merger can take 12 to 18 months. We deal with credit unions of all sizes and were hired to oversee the merger of a large credit union that was absorbing a smaller credit union. Both these credit unions had similar core operating systems, but their methodologies were different. In our estimation, the smaller credit union's approach was sounder and we presented this recommendation before the process started. The larger credit union disagreed and arrogantly pushed ahead with their method. As we predicted, their methodology failed horribly during the conversion process. Ultimately, the larger credit union conceded and the original method was instituted. However, that "a-ha" moment was realized three months into the process and as a result a great deal of time, resources and money was wasted.

At the end of the day, we are all in the business of delivering exceptional services and enhancing the member experience. All too often during these mergers, we see member confidence shaken due to acquiring credit unions arriving at flawed assumptions. For example, two merging credit unions have the same online banking platform. Again, it would seem logical that when merged, it would be seamless. However, the parameters, internal controls and security settings are all different, among countless other variables. This is but one small example of the magnitude and importance of converting technological processes.

When it comes to mergers and conversions, never assume. Rather, keep an open mind and realize that research, analysis and third-party assessment will result in a controlled, streamlined and successful venture.

Sabeh Samaha is founder and CEO of Samaha Associates, Chino Hills, Calif. For info: www.ssamaha.com