For the past two years, the Indian banking sector has been going through a transformation. Measures to counter ‘bad assets’ began to be rolled out in 2017 in a definitive and focused manner. The resolution mechanism strives to bring defaulters to book, and to restrict the room for evading responsibilities and liabilities towards banks and creditors. However, this is only a small part of the bigger picture.

The Indian government is taking a ‘clean and consolidate’ approach to the transformation process, in which banks can transparently declare and resolve their dormant or non-performing assets. This would lay a strong foundation for consolidation towards creating sustained asset quality, especially at public-sector banks.

The Indian banking sector is not unfamiliar with consolidation, be they mergers or acquisitions. In India, the banking sector has seen quite an array of mergers, of which some were initiated by the government to protect investor interest. In some cases private banks have acquired smaller, regional banks to expand their presence and expertise.

Mergers not only combine brands to create bigger and better ones, but also unify people who bring in their own goals, decision-making mechanisms and strategic insights. Every merger has its challenges – related to culture, strategy, or valuation – which are unique to the entities involved. And not all mergers are successful. So when a merger succeeds, it is always worth examining the process closely to decipher “how was it done”.

A Merger Of Equals
One of the most successful corporate unions in recent times is that of Kotak Mahindra Bank and ING Vysya Bank. Effective April 1, 2015, ING Vysya Bank merged with Kotak Mahindra Bank (Kotak), pushing the merged entity to the position of India’s fourth largest private sector bank in terms of both number of branches and profitability.

This merger, the biggest in India’s banking history, is truly unique, because it was a merger of ‘equals’. It stood
out because both banks were fully functional and their integration was akin to ‘refuelling an aircraft mid-air’. It had to be (and was) managed without the slightest hitch in the regular operations of the banks at any of their combined 1,300 plus branches pan-India.

While the merger was seamless, integrating the two banks presented unique challenges as well as opportunities. Various factors determined the course of the merger, but areas that played dominant roles included people, processes, technology and culture.

By 2014, Kotak Mahindra Bank was already expanding rapidly and had a network of 641 branches across the country. It had a deep network in north and west India, and wanted to improve its presence in the south. Enter ING Vysya Bank, whose parent (ING) was seeking to exit the Indian banking segment because of financial challenges back home in the wake of the global financial crisis.

ING Vysya complimented Kotak at various levels. It had, for example, a strong presence in small and medium businesses (SMBs) and retail segments, dovetailing nicely with Kotak’s stronghold in corporate and investment banking.

There were many more commonalities. Both the banks, for instance, had professional decision-making mechanisms – Kotak is helmed by an Indian profes-
sional turned banker while ING Vysya is the first bank born out of a merger between an Indian private bank and a foreign bank.

However, there were challenges too, mainly related to the banks’ diverse decision-making structures and cultural differences. A seamless merger of the operations of the two large banks needed precision in terms of timing, intent, and the ability to visualise the bigger picture.

The Kotak and ING Vysya merger was first announced in November 2014, which was the beginning of what has been the biggest merger in the history of India’s banking sector so far. In terms of its deal size, this was the largest transaction in the history of India’s financial services sector, at 1.4 times that of its predecessor.

**First Things First**
The first step was to assess the situation. Every organisation that goes through a merger has to deal with anxiety and restlessness among its people. Managing these emotions was the key to ensuring a culture of trust and transparency.

An honest SWOT approach enabled the management to anticipate and identify key challenges, prioritise needs, and focus on strengths. The process began as soon as merger discussions started, providing a much needed transparency to both organisations and their people.

**Business Integration**
Having identified key areas of concern and growth, it was critical to merge Kotak Mahindra Bank and the erstwhile ING Vysya Bank seamlessly into one organisation in a timely and structured manner. Initially, the merger timeline was set at a steep 12 months!

Within this timeframe, about 29,000 plus people from 1,261 branches (as on April 1, 2015) across India needed to be brought together to represent one organisation, while ensuring that business continued as usual. To achieve this goal, a centralised, top-down approach was adopted, which focused on speed, culture, and communication.

**Integration Management Office**
The solution and subsequent success of this mammoth task came from a small but well-thought-out and vital step – the creation of a tiered integrated governance architecture, headed by a ‘Steering Committee’ that comprised the top management of both the banks. This committee took charge of key decisions and monitored the merger process.

An ‘Integration Management Office’ (IMO), headed by Mohan Shenoi, who at that point was President and Head – Global Treasury, Kotak Mahindra Bank, reported to this Steering Committee. Mohan was redesignated Chief Integration Officer. He led two teams – each comprising senior representatives of both banks, charged with a full-time responsibility towards implementing the merger.

The IMO was supported by external consultants and dedicated team members. The main task of the IMO was to integrate both organisations in a systematic and seamless manner. This dedicated and single-point office was responsible for spearheading and supervising the integration of all units.

**November 20, 2014: The proposed merger is announced**

**January 7, 2015: The proposed merger is approved by Kotak and ING shareholders**

**The Role Of The IMO**
The IMO team had 13 permanent members who were responsible for all aspects of the integration, and were supported by members from various business units. The core mandate of the IMO comprised four areas – people, process, technology, and synergy.

**People:** The IMO was responsible for optimising the organisational structure, putting forward the best person for a job, managing the erstwhile ING Vysya Bank’s employee union, harmonising the culture, and managing internal communication in a transparent manner.

**Process:** The IMO had to review and streamline more than 3,000 processes and ensure the application of best practices across both entities.

**Technology:** The IMO outlined third-party evaluation for system procurement, data migration, and training of destination systems across the integrated organisation.

**Synergy:** Within this, the IMO tracked combinational and transformational strengths across costs and revenues as well as business-wise budgeting, based on
synergies for future realisation.

**Crystallising The Vision**
To bridge the cultural gap, it was essential to bring every member of the expanded team on to one platform. This was achieved by an integrated internal communications campaign – ‘One Team. One Dream.’ The campaign not only led to instilling the big picture among the 29,000 plus members (as on April 1, 2015) of the combined workforce, but also imparted confidence in the creation of a ‘single-organisation’ culture.

**Bank-in-bank**
The IMO’s key role was to drive the integration while keeping a sharp focus on extracting value. This led to the creation of a unique structure – Bank-in-Bank (BIB). Under this, the non-integrated businesses of ING Vysya Bank were selectively merged into the united entity, with suitable focus on transformational opportunities, combina-
tional synergies, and protection of the base business.

The BIB model led to minimal disruptions during the integration process. For all common units, a single senior leadership was finalised and the units operated in a parallel manner at both Kotak and the erstwhile ING Vysya Bank.

**Step-by-Step Integration**
- The treasury and marketing functions merged on Day Zero (April 1, 2015) itself.
- Access to new markets: Presence in South India increased to 34 per cent on March 31, 2016, from 15 per cent on March 31, 2015.
- A platform to build a stronger bank: Deploying state-of-the-art technological infrastructure to empower customers with new-age banking solutions.
- Increasing the transaction banking business.
- Deeper penetration into the SME segment.
- Increasing lending to weaker sections and direct agri-lending.
- Stronger credit- and risk-management practices.
- Leveraging the erstwhile ING Vysya Bank branch network to drive higher savings accounts (by offering a six per cent interest rate on savings account balances of Rs 100,000 and above), current accounts, term deposits, assets, and revenue.
- Using the expanded network for distribution of vari-

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**February 20, 2015:**
**The Competition Commission of India approves the merger**

**April 1, 2015:**
**The Reserve Bank of India approves the merger**

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People
A survey by Mckinsey & Co. found that differing organisational cultures was the most likely reason for the failure of mergers. In the same survey, an overwhelming majority strongly agreed that managing culture is critical to capturing merger value.

Globally, there have been several cases where mergers between two world-leading players were not very successful due to internal glitches. For example, in the Bank of America and Merrill Lynch merger, there was an exodus of key employees from the latter. It the AOL and Netscape merger, the former could not understand the latter’s independent and informal culture, which resulted in a 36 per cent market share loss in the first year of the merger.

While internal harmony is critical to a merger’s success, external stakeholders, including clients, also have to be kept properly engaged. For example, Wells Fargo’s acquisition of First Interstate gave an ‘instant’ 20 per cent boost to the former’s market share. However, poor client communication during the merger and a new IT system left customers confused and dissatisfied with the new entity, which resulted in an exit of 10,000 accounts per month and a huge client – one US $1.3 billion commercial account.

Kotak has successfully avoided both internal and external pitfalls. Before the merger, Kotak had a strong workforce of about 18,000 employees. Following the merger, the combined workforce stood at 29,000 plus...
employees (as on 1 April, 2015). To ensure smooth integration, a host of HR initiatives were deployed encircling key areas of transparency, inculcating trust, team bonding and cultural integration.

After the amalgamation of all units, an optimised structure was put in place for each unit. A unique internal communications initiative was started, which included sharing updates on developments of the integration process and introduction and acquaintance with senior leadership through Q&As.

Regular ‘town halls’ were organised for erstwhile ING Vysya employees, addressed by the senior leadership to create trust and transparency. Exhaustive classroom, on-the-job training, and online programmes for over 6,500 employees across verticals, ensured that the combined team functioned as a cohesive unit.

In addition, employees across the two banks’ frontline and operations verticals were swapped, so that they could learn each other’s best practices. The integration also benefited considerably from frequent surveys and feedback monitoring. PULSE, a survey on cultural harmonisation, was conducted among the entire workforce, which brought forth the diversity of both organisations.

Good practices were identified and assimilated for increased collaboration and productivity. In addition, several employee-satisfaction surveys were undertaken to ascertain the efficacy of the integration process. The outcomes of the surveys indicated high levels of satisfaction amongst all erstwhile ING Vysya employees. Aspects that needed more attention were also highlighted. These insights were at the core of formulating policies and driving engagement among the employees.

**Technology**

The journey progressed steadily with a mindful, step-by-step approach. Business units were integrated in a phased manner on diverse parameters, including regulatory constraints and complexities. In one of the largest and most complex technology integration exercises undertaken in the Indian banking industry, multiple IT systems and IT infrastructure environments were seamlessly integrated.

From Day Zero, a ‘One Team Helpdesk’ was activated to enable hassle-free processing of crucial cross-network transactions such as cash withdrawals, deposits, and card hot-listing. The well-planned methodical approach, continuous monitoring, and validation through external partners ensured minimal disruption in operations and people. The IT infrastructure was also upgraded to handle the anticipated increase in loads. Finacle, the selected core banking system, was rolled out in a phased manner to all erstwhile ING Vysya Bank branches, well before full system migration.

**Conclusion**

Pre-merger, Kotak Mahindra Bank’s consolidated net worth was Rs 20,554 crore (as on September 30, 2014). After the merger, this number increased to Rs 31,333 crore (as on September 30, 2015). The bigger impact of the merger was in terms of value creation for all stakeholders. After the merger, the integrated entity emerged as the fourth-largest bank in India, and the consolidated net worth of the Group was Rs 48,621 crore (as on December 31, 2017). Overall, Kotak has expanded its footprint across India’s ‘kona kona’ (every corner) to 1,375 branches (from 684 pre-merger) and 2,171 ATMs (from 1,273 earlier) as on December 31, 2017.

What makes this merger stand out is that it was completed well on time and without any negative fallout whatsoever. The integration of people, processes, and network has already started yielding results for the bank, which is vying for a higher share of the Indian banking pie every year. 

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“I WAS GIVEN 12 MONTHS! UDAY CALLED ME AND TOLD ME THAT YOU SHOULD BE JOBLESS AT THE END OF THE NEXT 12 MONTHS. I TOOK 14 MONTHS.”

**MOHAN SHENOI**, CHIEF OPERATING OFFICER, KOTAK MAHINDRA BANK

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