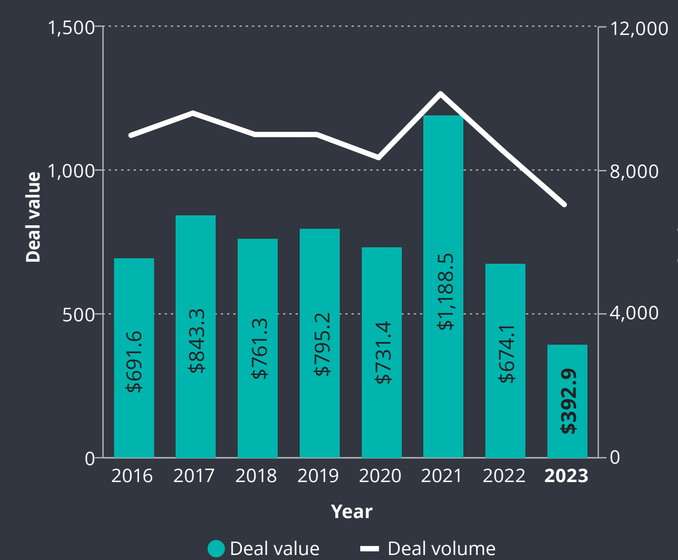
Financial Services

Financial Services deal value and volume
(in trillions of US dollars)



Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 12, 2024.

Observations

The decline in financial services M&A activity continued in 2023, with the sector registering a 42% YoY deal value drop to $393B in 2023, the lowest in a decade. Deal volumes also saw a YoY decline of 18% to 7,085 transactions.

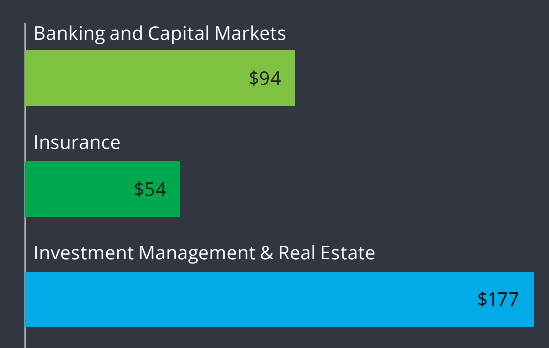
Asia-Pacific was the most active region in terms of deal volume with 2,339 transactions, followed by Europe with 2,187 deals.

All the subsectors witnessed a deal value decline, except Insurance where values increased by 17% to $54B, driven by large deals (≥$1B to $10B). Bank failures in the United States and Europe had a dampening effect on M&A activity.

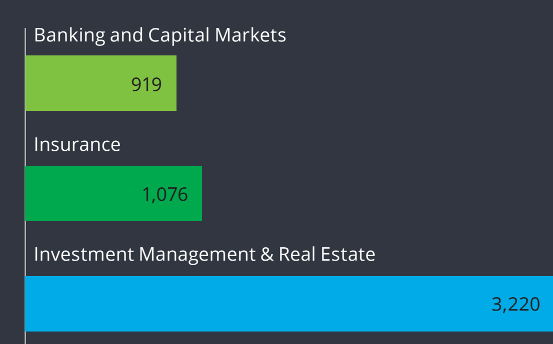
Banking and Capital Markets witnessed a heavy (49%) decline in megadeal activity. Similar trends were found across Investment Management and Real Estate subsectors. Investment Management deal activity heavily declined in Asia-Pacific, but companies turned to joint ventures to expand into new markets.

Falling interest rates, coupled with a rally in bank share prices, might boost the sector's M&A in late 2024. Consolidation pressures in Investment Management may also drive M&A this year.

Deal value by sector (2023)
(in billions of US dollars)



Deal volume by sector (2023)



Banking & Securities

Forces shaping 'new normal' conditions

Skewed balance sheets are resulting in declining ROE

- Banks have divested noncore assets from their portfolios, resulting in a skewed balance sheet with legacy products.
- Growth will be required to deliver more stable return on equity (ROE).

Regulation will continue to influence the market

- Regulators are expected to respond to rapid developments in the sector with the introduction of new rules, especially in the areas of digital assets, climate, and financial inclusion.
- Regulatory convergence is increasingly desired by central bankers and could have a major impact on competition and market strategies.

Stakeholders demand ESG commitments

- Increased scrutiny from clients, regulators, investors, and employees on companies' ESG commitments will affect business models for financial institutions.

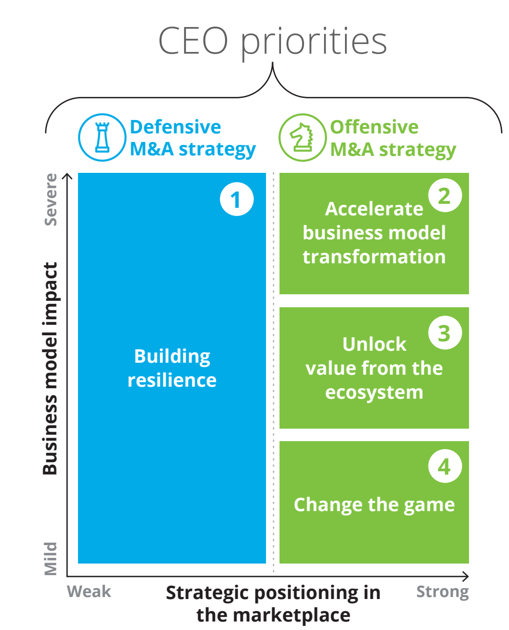
Digital assets, blockchain technology, and cybersecurity are increasing in importance

- The introduction of new, disruptive products and technologies has led to banks investing heavily in new technologies and creating alliances with partners that have broader digital capabilities.
- Banks are shifting toward integrated platforms and cloud solutions to improve cybersecurity and enhance analytical capabilities.

Short-term responses

1 Divestment of noncore assets
Companies could consider divesting underperforming loan portfolios and noncore divisions to raise capital and improve efficiency.

2 Technology-led business transformation
Investments and acquisitions of new technologies (e.g., digital payments, e-trading platforms) will be critical to position banks to compete in the future.



Medium-term responses

3 Cross-selling opportunities
Banks need to establish alliances outside of their core sector with players from technology, retail, health, and others, to cross-sell new services to a wider customer base, introduce new capabilities, and improve utilization of their current assets.

4 Growth investments
Banks also need to consider acquiring high-growth, innovative businesses in areas like cybersecurity, fintech platforms, blockchain, AI, and others in adjacencies that could, in time, become the new core.

Investment Management

Forces shaping 'new normal' conditions

Shifts in customer demand are driving new business models

- Customers are increasingly demanding specialized and value-add services.
- Firms are using digital channels and process automation to enhance client interactions.

Regulators are focusing on customer protection

- Regulators are likely to focus on increased client protections in areas such as data privacy, fee transparency, product unbundling, and ESG offerings.
- Lack of alignment could result in regulation asymmetry across jurisdictions.

Demand for digital assets will require new capabilities

- Increasing interest in digital assets (e.g., crypto, non-fungible tokens [NFTs]) requires firms to develop or acquire new technologies and product offerings.
- These new offerings will also increase the importance of cybersecurity capabilities.

ESG will affect asset allocation

- The focus on ESG will affect investment allocation decisions, investment transparency, regulatory reporting, and product marketing decisions. It will also likely drive product innovation in this segment.

Performance pressures are affecting allocations

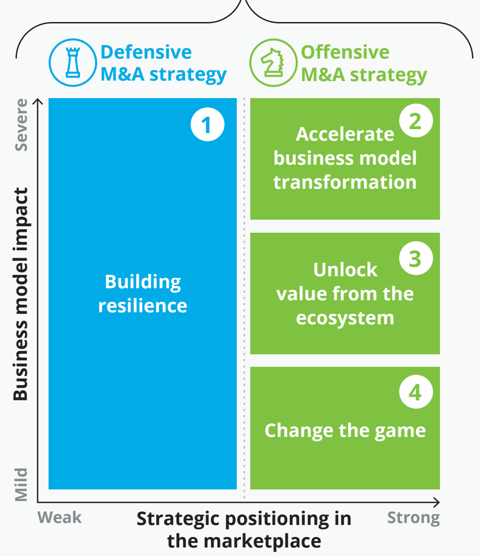
- The alternatives market has gained wide acceptance as it offers portfolio diversity and higher returns. This is placing further pressure on allocations and integration with traditional asset classes.

CEO priorities

Short-term responses

1 Consolidation
The sector is ripe for further consolidation, and in recent months, major players have been rapidly consolidating in response to falling fees and lack of growth.

2 Bolt-on capabilities
Investment management firms are pursuing M&A to acquire new capabilities such as ESG investment specialization and technologies such as automated portfolio platforms (robo-advisers).



Medium-term responses

3 Nontraditional alliances
Firms need to consider alliances outside of their core activities to expand their current client base, skills, and product offerings.

4 Future portfolio
Firms also need to consider acquisitions of high-growth, innovative businesses in adjacent growth areas such as crypto funds, NFTs, crypto asset management platforms, and others.

Insurance

Forces shaping 'new normal' conditions

Reduction in property and casualty (P&C) business volumes will drive innovation

- Reduction in traditional volumes and pricing pressures are forcing P&C insurers to focus on innovative offerings such as usage-based insurance and sensor-enabled analytics.

Customer-centric business models

- Customers are increasingly expecting an elevated customer experience, forcing investment in analytics and new product development.
- Convergence of insurance with digital health platforms is giving rise to new customer product categories and untapped market segments.

Emerging talent model

- Pressure on growth is forcing insurers to develop innovative operational solutions.
- This is leading to investment and hiring of skilled workforce in new areas such as digital, cloud, automation, risk controls, and customer analytics.
- Insurers need to foster a flexible and agile workplace culture for such fresh talent to thrive.

ESG is more than a 'brand' play

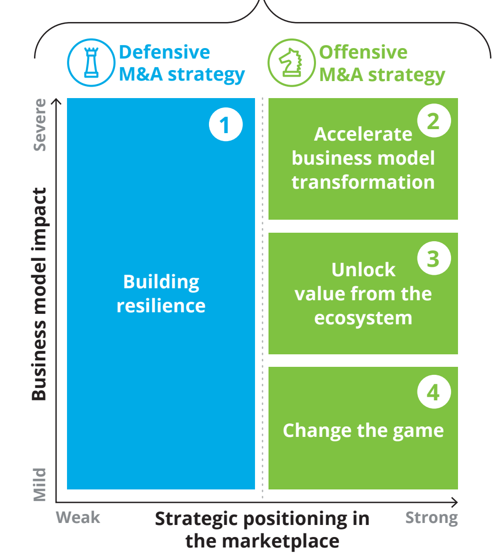
- For insurance companies, ESG principles will underpin the new emotional contract.
- Insurance companies are uniquely placed to influence ESG mandates on global businesses given their role in underwriting industrial activities for other companies.

CEO priorities

Short-term responses

1 Portfolio rebalancing
Market uncertainties resulting from geopolitical conflict and the need for capital optimization may prompt insurers to divest noncore assets and exit underperforming markets.

2 Market consolidation
Costs of legacy business models and operating pressures are likely to drive consolidation in the market in order to capture economies of scale and accelerate transformation by investing in digital assets and analytics capabilities.



Medium-term responses

3 New alliances
Insurers could actively look for partnerships in the technology, health, and communication sectors to address needs for a holistic solution.

4 InsurTech segment
After years of investment and scaling up, the InsurTech sector is at a stage of maturity where consolidation is to be expected; insurers could also focus on the new segment of InsurTech that uses third-party data to disrupt underwriting and pricing.