Financial Services

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 $4B, 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.

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

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

Deal value by sector (2023)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Deal value (in billions of US dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and Capital Markets</td>
<td>$94</td>
</tr>
<tr>
<td>Insurance</td>
<td>$54</td>
</tr>
<tr>
<td>Investment Management &amp; Real Estate</td>
<td>$177</td>
</tr>
</tbody>
</table>

Deal volume by sector (2023)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Deal volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and Capital Markets</td>
<td>918</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,076</td>
</tr>
<tr>
<td>Investment Management &amp; Real Estate</td>
<td>3,225</td>
</tr>
</tbody>
</table>

Forces shaping ‘new normal’ conditions

Skew in 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.

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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

1. 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.

2. 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.
Future portfolio
The alternatives market has gained wide
insight into the InsurTech segment
Consolidation
This is leading to investment and hiring
Pressure on growth is forcing insurers to
Insurers need to foster a flexible and
Reduction in traditional volumes and
Nontraditional alliances
Lack of alignment could result in regulation
Customers are increasingly
Increasing interest in digital assets
Regulators are likely to focus on increased
demand for new technologies and product
These new offerings will also increase the
ESG will affect
Performance pressures are affecting allocations
The focus on ESG will affect investment
Performance pressures are affecting allocations
Demand for digital assets will require
Regulators are focusing on customer protection
• Regulators are likely to focus on increased
• Lack of alignment could result in regulation
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