



Caution shrouds optimism

Global banking M&A trends 2019

May 2019

KPMG International

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Foreword

Caution shrouds optimism

In 2018, the overall banking M&A environment seemed to be headed in two opposite directions, with a slowdown in deal volume paired with an uptick in deal value. Domestic banking deals continue to dominate, making up three-quarters of all activity. The US, India, China and the UK remain the most targeted economies. China's domestic deal activity has calmed somewhat in line with economic growth, while the US has yet to see anticipated deal upturns arising from regulatory relief. India, on the other hand, enjoyed a 22 percent increase in deal volume in 2018 driven by market consolidation and an increase in investments by private equity (PE) investors and sovereign wealth funds (SWFs).

Rising regulatory uncertainty and ongoing trade and tariff negotiations — including Brexit and US-China trade disputes — have served to shroud an otherwise robust M&A market and make it harder to deliver shareholder value.

These factors aside, we see plenty of reasons for optimism.

Healthy liquidity is a major driver of M&A, with PE players estimated to have more than 1 trillion US dollars (USD) in 'dry powder' — around one-third of their entire assets under management (AuM). Commercial banks, consumer and micro finance companies, specialty finance, fintech and payments sectors, platform companies, non-performing

loans (NPLs), asset/wealth management and other business services that serve financial services firms should continue to be arenas for investment.

With disruptors shaking up the market and making inroads in e-commerce and e-banking, banks are looking for strategic partnerships and investments in fintech technologies and respond promptly with innovative solutions. Many already have innovation funds and technology arms.

Globally, consolidation remains a key theme, especially amongst small and mid-size banks, presenting significant deal opportunities. Additionally, there is increasing pressure to de-leverage NPLs to satisfy regulators and RoE expectations of bank investors. This deleveraging helps investors seeking returns in a low yield environment. Overall, we expect international investors to gradually shift their NPL investments — currently 100 percent Europe-focused — towards Asia.

Overall, we remain optimistic about the deal environment in 2019, despite the shroud of geopolitical tensions, and regulatory and economic environment in certain economies. Most financial institutions understand the primary trends impacting the industry and the actions needed to respond, with caution, to competitive pressures.



Giuseppe Rossano Latorre
Global Financial Services Deal
Advisory Lead

KPMG in Italy

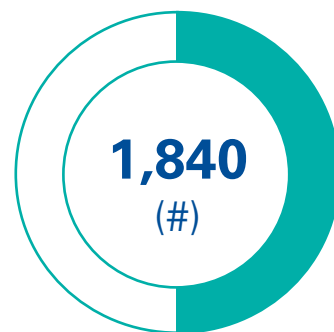
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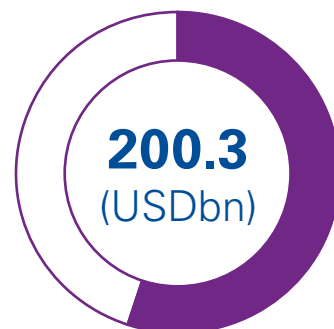
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Global banking M&A landscape

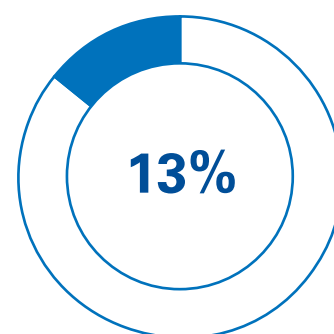
Banking deal volume in 2018 (as a % of total FS deals)



Banking deal value in 2018 (as a % of total FS deal value)



PE bidder deals in banking in 2018



Source: Thomson ONE, except for PE data which has been extracted from Mergermarket

Top 5 core banking deals in 2018

#1: **Alawwal Bank**

Acquirer: [Saudi British Bank](#)
USD4.7 billion

#2: **MB Financial**

Acquirer: [Fifth Third Bancorp](#)
USD4.6 billion

#3: **HNA Group Finance**

Acquirer: [a group of investors](#)
USD4.2 billion

#4: **NPL portfolio of Intesa Sanpaolo**

Acquirer: [a group of investors](#)
USD3.8 billion

#5: **Denizbank**

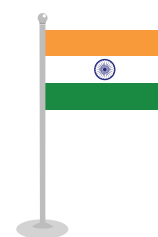
Acquirer: [Emirates NBD Bank](#)
USD3.2 billion

Top 5 active transaction markets in 2018

Target/bidder markets



US



India



China

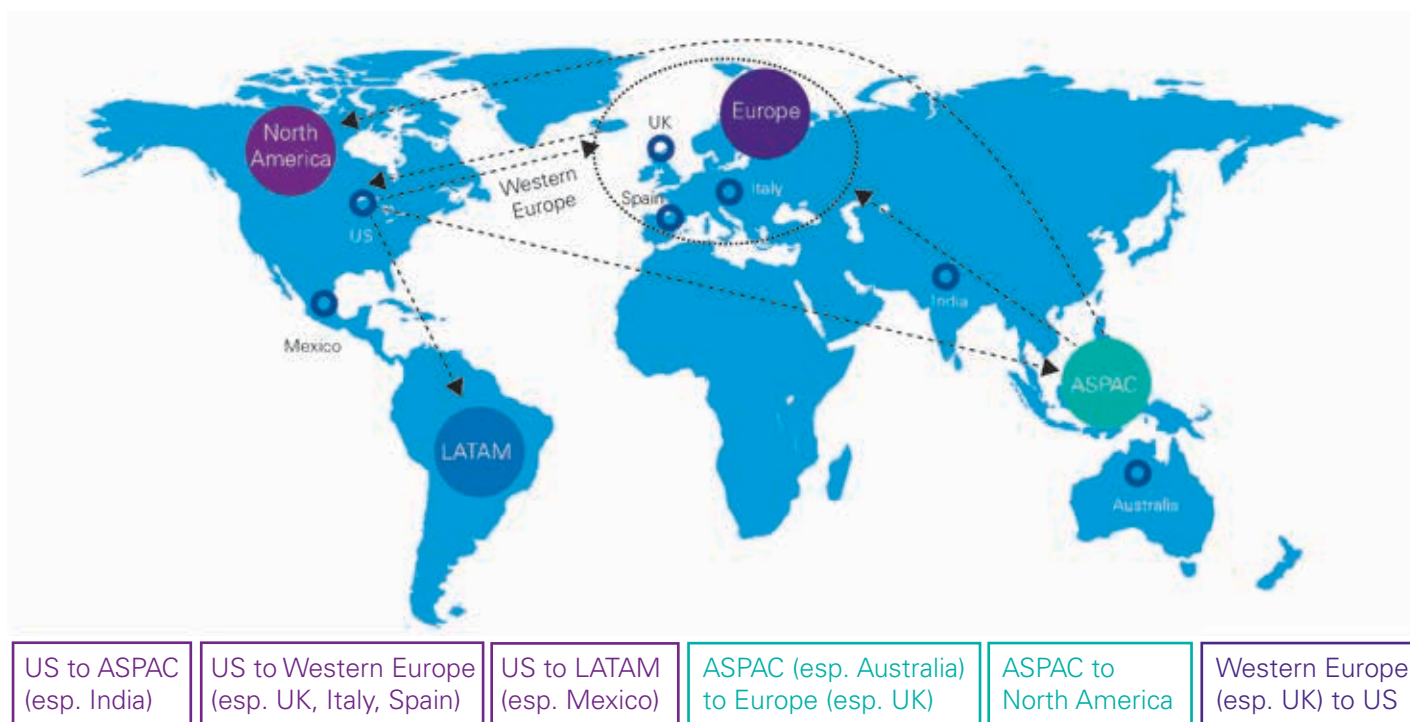


UK



Russia

Top 6 inter-continental deal corridors in 2018



Source: Thomson ONE; Mergermarket

Prevalent themes across geographies



High-value deals



Minority stake deals



Divestiture



Consolidation



NPL deleveraging



Innovation led by fintechs



Bancassurance deals



Regulations driving M&A



Active PE buyers



New buyers' market (non-FS buyers from real estate, industrials, technology, consumer markets and transportation)



Specialty finance deals



Payments



Organic growth



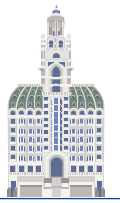
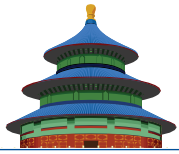
Structural transformation



Relaxation of foreign investment rules



Privatization



**Trend 1:
China**

**Trend 2:
ASPAC**

**Trend 3:
US**

**Trend 4:
Western Europe**

**Trend 5: Central
Eastern Europe**

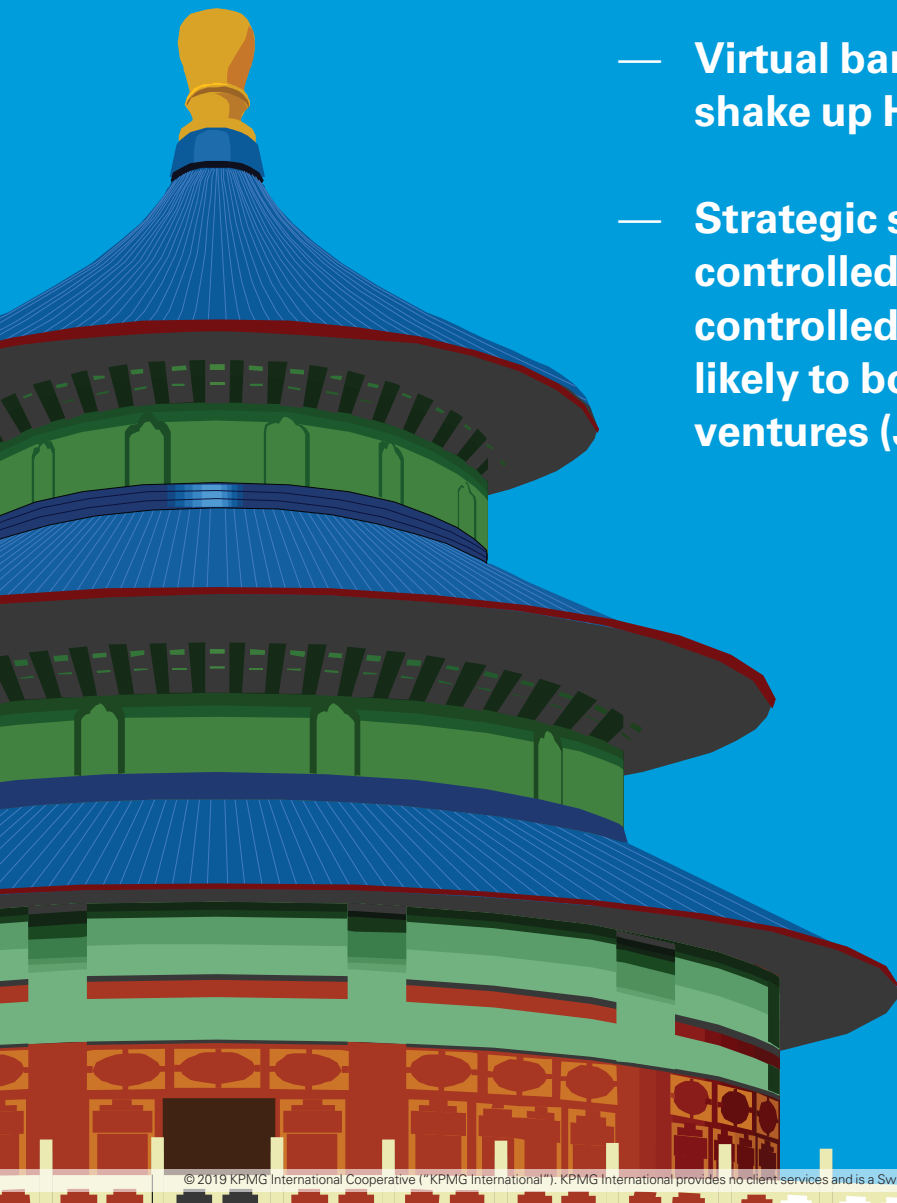
**Trend 6:
Africa**

**Trend 7:
LATAM**



Trend 1: China

- **China's fintech goes overseas**
- **Virtual banking is set to shake up Hong Kong**
- **Strategic shift from fully controlled to partially controlled acquisitions likely to boost joint ventures (JVs) in 2019**



Trends to watch in 2019

Fintech goes global

The sector is expected to drive deals, as leading fintech players continue to make domestic acquisitions as well as increase overseas acquisitions and partnerships. After achieving success domestically, a number of large fintechs — primarily from China — have set their sights on Southeast Asia as the next step in their growth agenda. Chinese fintechs' international aspirations should create opportunities for Western incumbents to forge partnerships and JVs.

Shaping up of virtual banks in Hong Kong (SAR)

As virtual banks emerge in Hong Kong (SAR), internet banks should continue to bloom in mainland China, with strong, tech-enabled growth focused on retail and small enterprise loans. The Hong Kong Monetary Authority (HKMA) has unveiled the first batch of licenses in early 2019. The development of virtual banks is set to accelerate the application of fintech and innovation in Hong Kong (SAR) and offer a new kind of customer experience, as part of a broader ambition to become a smart city.

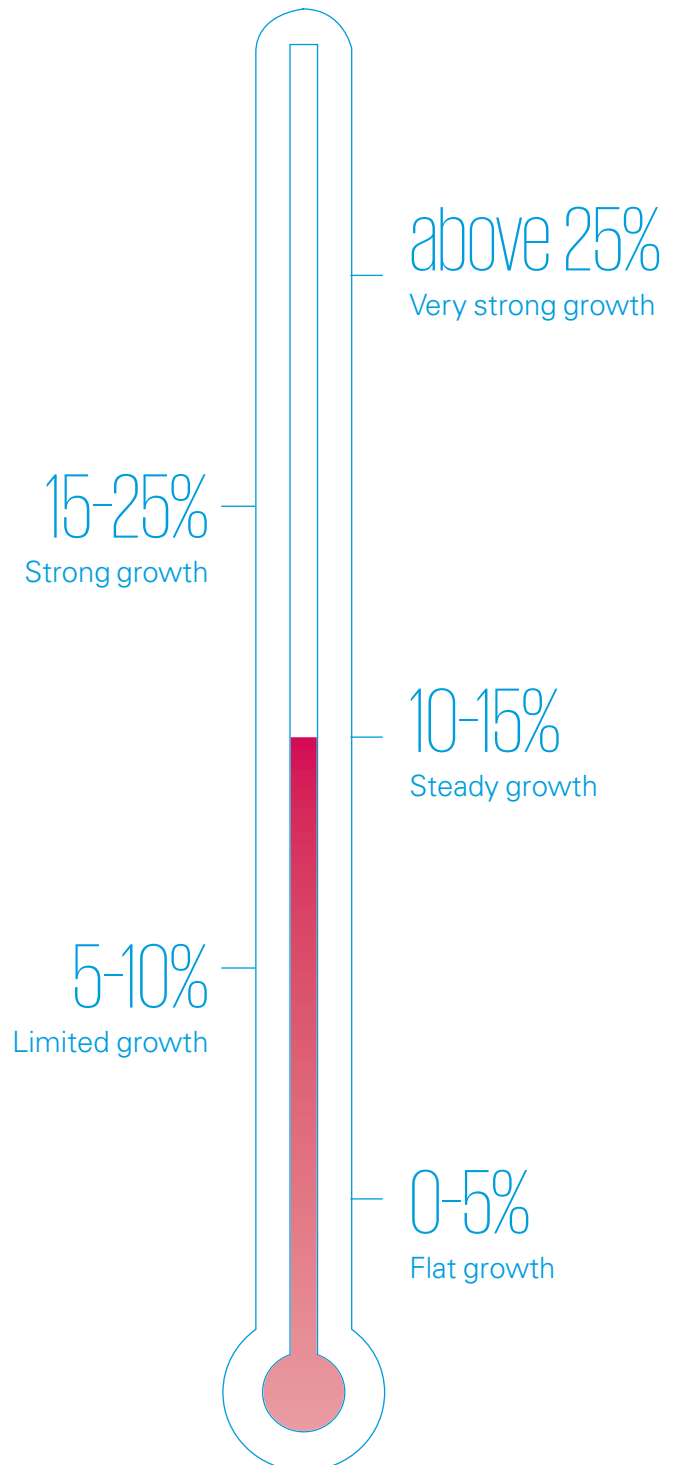
JVs to be boosted in 2019

In a break with the past, Chinese banks are starting to recognize the value of support — particularly from local partners — and are shifting from their traditional strategy of controlled acquisition. Banks are willing to acquire 50–60 percent control but are also eager to retain local partners to help navigate their respective countries, creating opportunities for financial institutions looking for partnerships/JVs in 2019.

“Chinese fintech is going global.”

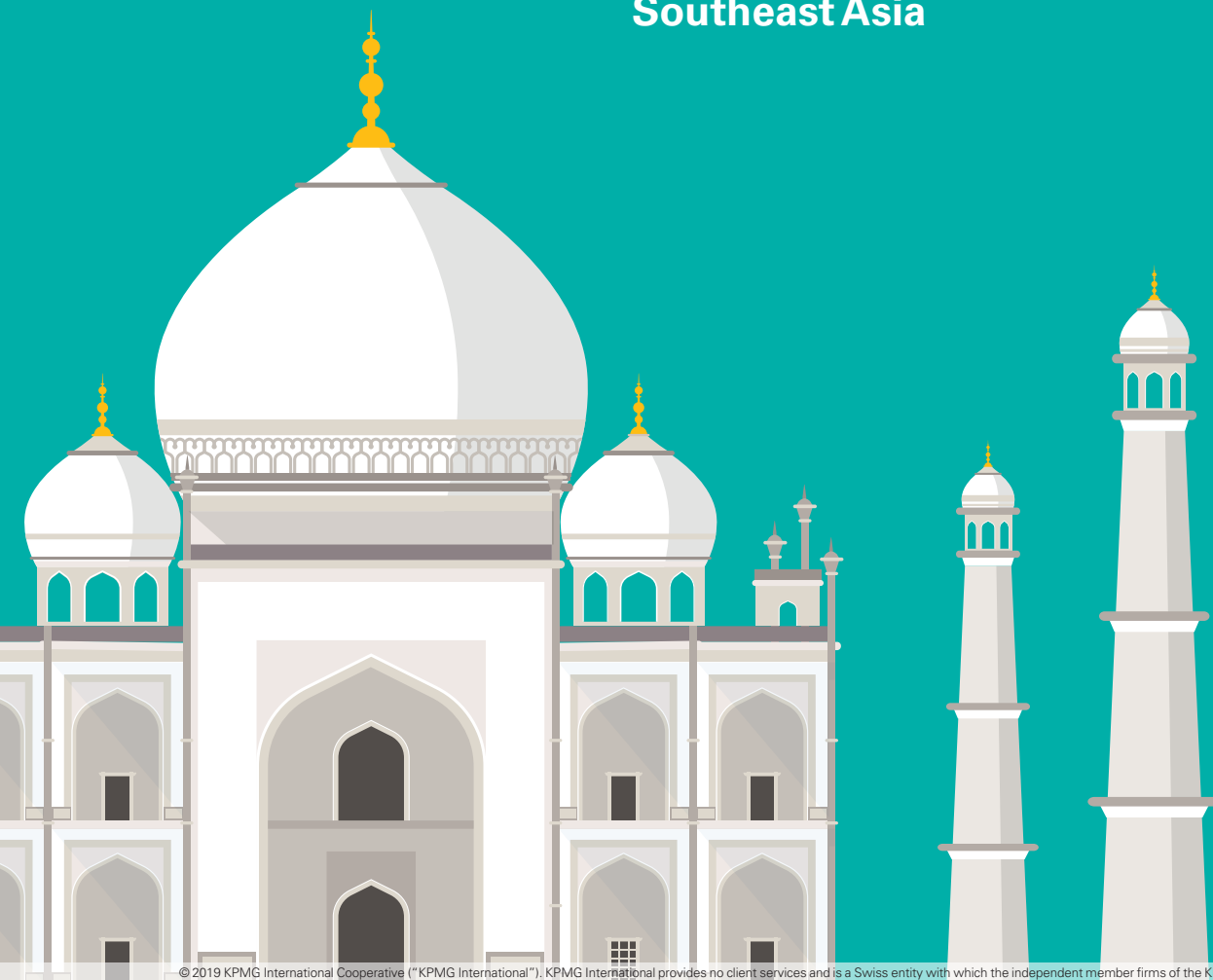
Louis H.C. Ng
Partner,
Deal Advisory Financial Services
KPMG China

M&A forecast



Trend 2: ASPAC

- **Regulators warm to dealmaking**
- **Bancassurance still bubbling**
- **Deal activity to thrive in Southeast Asia**



Trends to watch in 2019

Regulations driving M&A

Regulators are looking to consolidate banking sectors across the region and increase overall provisions. In Australia, the recent conclusion of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, is likely to see major banks continue to review their business models, which could see further divestments in non-core businesses. Meanwhile, the continued severe business environment is forcing regional banks in Japan to rethink their strategies, including M&A with other banks. In Indonesia, while financial regulators are encouraging consolidation as there are too many banks, thus making regulatory supervision coverage problematic, foreign ownership limits are not being relaxed. A 2012 Central Bank Regulation capped foreign ownership at 40 percent; however, majority investments are being approved on certain conditions, one being that the acquiring party merges two Indonesian banks. Notwithstanding this, the country is attracting Japanese, Korean and Chinese banks as investors. Additionally, in China, opening up of the financial system is arousing intense investor interest, which should see inbound deals increase from 2019 onwards.

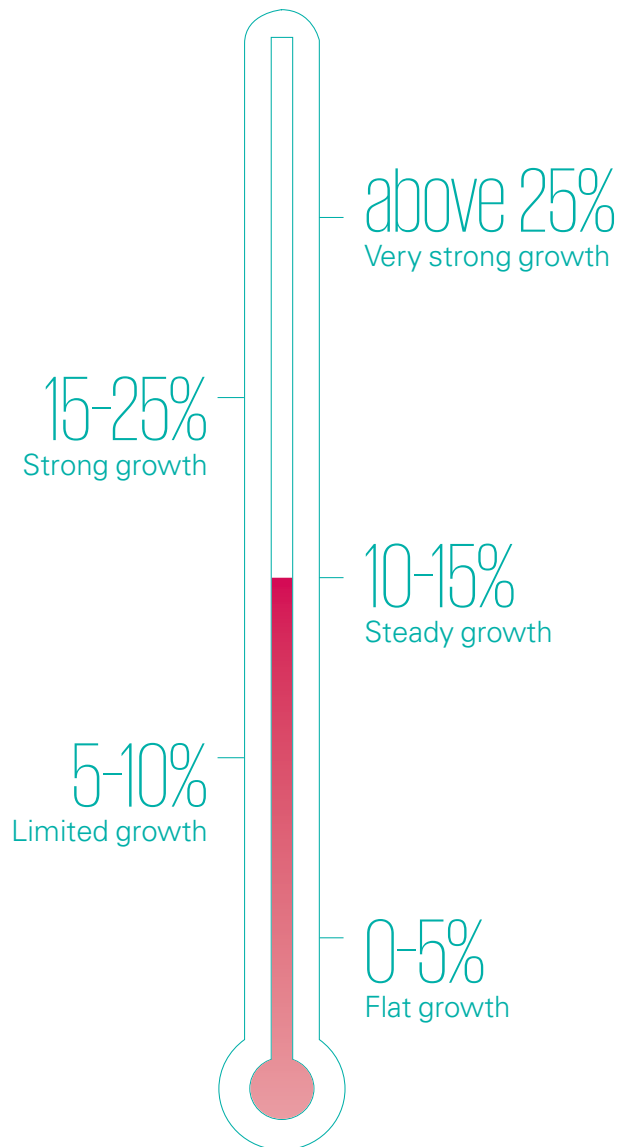
Bancassurance deals still hot

Bancassurance M&A in the region should continue to thrive in 2019. The low penetration rate of both banking and insurance products across ASEAN economies opens up great opportunities for banks and insurers developing their bancassurance models. New digital-enabled entrants from consumer-focused businesses are emerging and making deals in this space.

Deal activity to thrive in Southeast Asia

Southeast Asia is poised to be the center of the action in the next few years. Amid a potential US–China trade friction and currency uncertainties, ASEAN banks are well-placed with profitability largely stable, increasing asset quality and sufficient capital levels. The region has a large population, relatively similar macroeconomics across countries, large underbanked populations and a significant number of citizens overseas. All of this makes Southeast Asia an attractive stepping-stone, hence growing interest from both regional banks and fintech players seeking to expand. We expect fund flows from North Asia (covering the countries, territories and jurisdictions of China, Taiwan, Japan and South Korea). In the banking space, Indonesia is expected to be very active, followed by Vietnam, Thailand and the Philippines. Singapore will continue to be a hub for sovereign and PE funds investing across the region, and with strong support from the Monetary Authority of Singapore (MAS), Singapore will continue to drive regional fintech collaboration and is the leading destination for fintech start-ups and innovation labs and venture capital.

M&A forecast



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Given continued macroeconomic growth and corresponding trends supporting financial inclusion across banking and insurance, we expect ASPAC financial services deal volumes to grow.”

Stephen Bates

Partner,
Deal Advisory Financial Services
KPMG in Singapore



Trend 3: US

- **Competition for depository deals to intensify**
- **Regional mergers will gain momentum**

Trends to watch in 2019

Competition for deposits to intensify further

As a result of rising interest rates, more buyers are looking for attractive deposit franchises as the competition for deposits continues to increase and deposit betas accelerate. With the largest banks growing their deposit market share via organic customer acquisition, the next tier is under pressure to further expand markets and increase assets. Larger regional banks are trying to develop through acquisition, ramping up their corporate development teams to make depository as well as fee-based deals. Amongst the key potential targets are rural banks with a secured deposit base, especially those with significant mass.

More regional mergers expected

We expect regional M&A activity to gain momentum with deal flow benefiting from regulatory relief, specifically, the raising of the Systematically Important Financial Institution (SIFI) threshold to USD250 billion (from USD50 billion) in assets, and from tax reform creating surplus capital available with banks. On the transactions side, we saw a couple of mergers of equals (MOEs) that have fared relatively well on stock price performance. Such transactions have been well received from the investors — an indication that we are likely to see more MOE transactions in the coming years. There is also a desperate need to develop financial technology to drive more regional mergers.

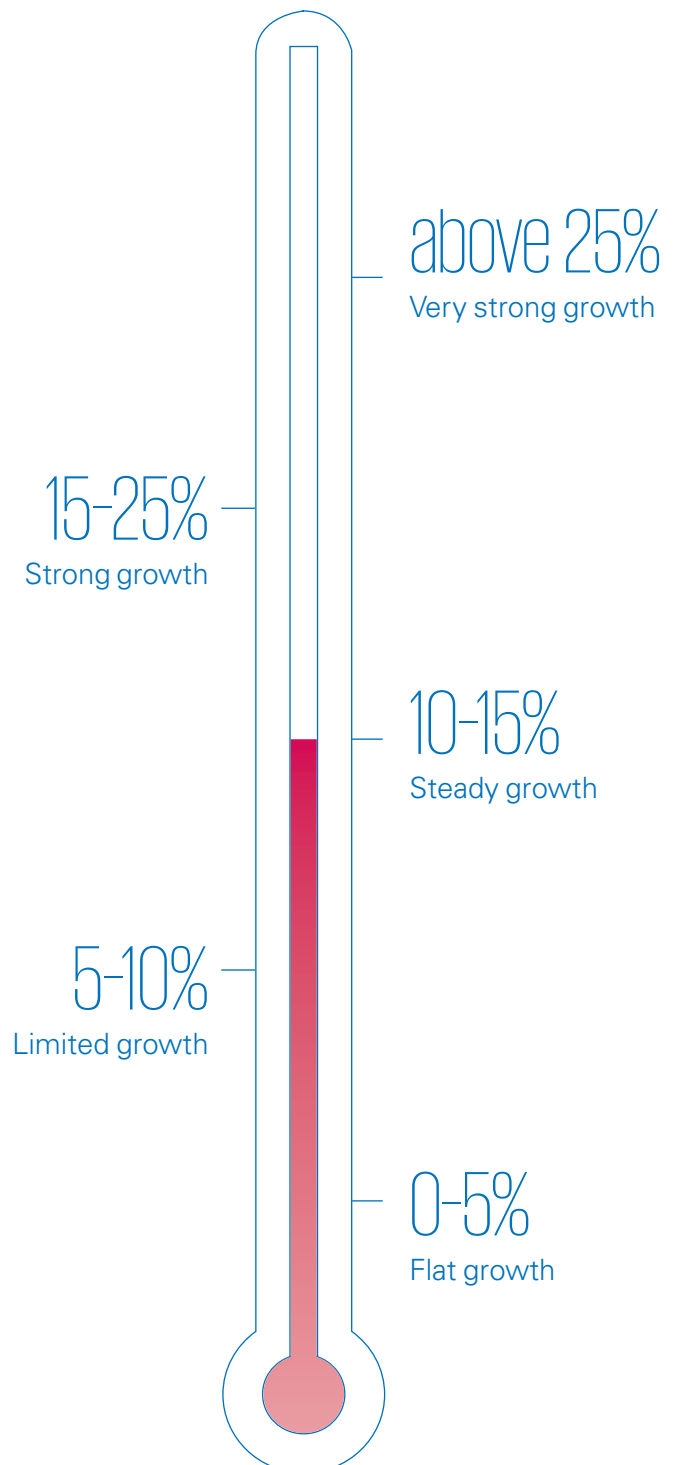
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We expect an increase in the volume of larger transactions in 2019; much of this driven by institutions that have not done sizeable deals over the last 5–10 years. Market participants should refresh their entire deal process. Everything from target identification to diligence and integration should be evaluated to ensure current issues are adequately addressed. Finally, management teams should ensure that they can clearly articulate the strategy they are pursuing to their investor base.”

Timothy Johnson

Partner,
Deal Advisory Financial Services
KPMG in the US

M&A forecast





Trend 4: Western Europe

- **Consolidation still prevalent**
- **Payments and specialty finance sectors remain strong**

Trends to watch in 2019

Consolidation pressures to continue

Much recent consolidation has been in small bank segments, particularly in countries with many small cooperative banks, like Germany and Italy. In Italy, the largest banks have almost completed restructuring/reorganization and are ready to speed up consolidation in 2019. Those Italian cooperative banks that are based on a mutual model are either moving towards creating a banking group or alternative schemes based on mutual protection, which should further strengthen the sector. Smaller 'popolari' banks in Italy are also currently analyzing potential combination projects. There is a general, continued consolidation trend in the German cooperative and savings banking sector, which continued in the last few years, such as the merger of DZ Bank and WGZ Bank. We expect this trend to accelerate in other geographies such as Switzerland, Spain and Luxembourg. Swiss private banking has recently seen a number of mergers among small to medium-sized players, while foreign investors are keen to set up new private banks or acquire existing Swiss entities. The M&A activity in the Luxembourg financial sector is sharply on the rise, especially in private banking, life insurance, trust and third-party management companies, and is at the confluence of two factors: consolidation of smaller subscale players into larger Luxembourg-based institutions and new entrants seeking to scale up platforms to access the EU markets. In Spain, we expect further consolidation with M&A banking activity in the mid-market segment, based on the sustained low interest rate environment and the recapitalization of the sector.

Boom in payments fuels rush of deals

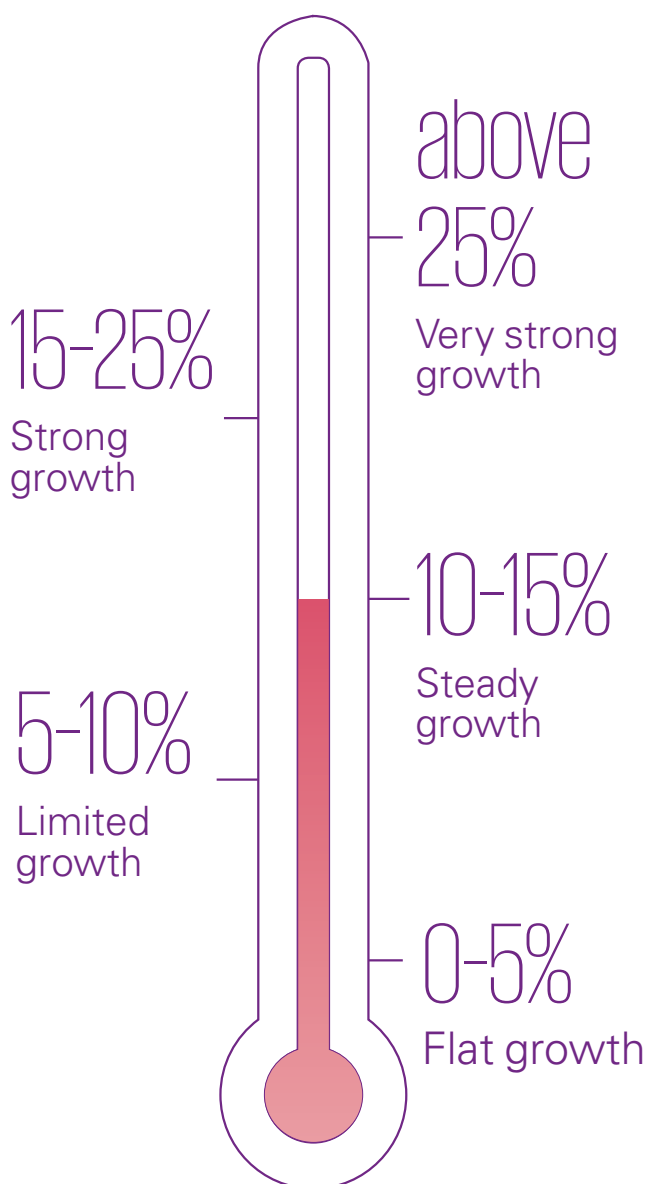
Despite the payments infrastructure experiencing considerable consolidation aimed at building global scale, with a number of transactions including IPOs, there is still a huge amount to go for. With PSD2 and GDPR now in effect, payment services provided through third-party vendors should increase ten-fold, paving the way for further consolidation and investment opportunities. In countries like the UK, France and Spain, we expect an increase in payments M&A activity. Expect consolidation and alliances in electronic, other non-cash payments and fintech companies, with a progressive increase in transaction tickets. Moreover, the industry continues to lure global investors, specifically buyout funds, which are eyeing potential acquisitions of payment companies/units of banks, especially in France and Spain, creating opportunities for higher valuations.

Specialty finance deals on the rise

Specialty finance for SMEs and consumers presents a huge growth opportunity, as European banks step back from riskier SME lending, creating openings for challenger banks, crowdfunders and peer-to-peer lenders.

The UK specialty finance market has been subject to extensive regulation in recent years such as credit card fees, interest rate caps on subprime lending and rules in relation to payday lending. The sector remains dynamic with external investment but is partially subdued by the uncertain economic outlook.

M&A forecast



European banking M&A forecast: Steady growth 10–15%



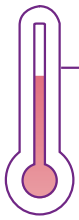
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Most large banks in Europe trade at a significant discount to their book value. This ought to make them attractive acquisition targets, but the sector has not witnessed a ‘mega merger’ for some time as most banks have focused on their own imperatives of raising CET1 (or MREL) and implementing digitization. At some point, the tide must break. The widespread speculation on a Deutsche Bank–Commerzbank merger is a very interesting development.”

Marcus Evans

Partner, Deal Advisory Financial Services
KPMG in the UK

Italian banking M&A forecast: Strong growth 15–25%



“

- Most Italian banks have implemented strategies to move from ‘physical’ to ‘digital’ and position themselves as platforms to connect end-customers with digital service providers (e.g. payments), while owning the customer relationship.”

Silvano Lenoci

Partner, Deal Advisory Financial Services
KPMG in Italy

Swiss private banking M&A forecast: Steady growth 10–15%



“

- Swiss Private Banking M&A is set to kick into high gear, with the negative impacts from regulatory and tax compliance implementation well in the past.”

Christian Hintermann

Partner, Deal Advisory Financial Services
KPMG in Switzerland

UK banking M&A forecast: Flat growth 0–5%



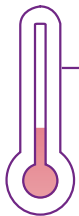
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- Although credit conditions are benign, pricing headwinds from intense competition are squeezing margins, reducing valuations and driving consolidation, particularly in the challenger bank tier (e.g. CYBG and Virgin Money, Aldermore and OneSavings Bank & Charter Court Financial Services). The large banks are delivering strong profitability in their retail and commercial operations. Meanwhile, the market as a whole is waiting for Brexit in whatever form that takes.”

Jeremy Welch

Partner, Deal Advisory Financial Services
KPMG in the UK

Spanish banking M&A forecast: Limited growth 5–10%



“

- Profitability in the Spanish banking sector has never fully recovered from the financial crisis 10 years ago, continuing to drag out the full recovery in M&A activity. On the other hand, banking-related PE activity is growing rapidly.”

Miguel Angel Martin Aguado

Partner, Deal Advisory Financial Services
KPMG in Spain

French banking M&A forecast: Limited growth 5–10%



“

- A positive market driven by focus on core geographies and activities.”

Raphael Jacquemard

Partner, Deal Advisory Financial Services
KPMG in France



Trend 5: Central Eastern Europe

- **Remaining marginal players are on sell-mode**
- **Privatization efforts gathering speed in West Balkans**
- **NPL sales still desirable**

Trends to watch in 2019

Remaining marginal players to sell

Some large regional Western banks are dismantling their business in the region, with subscale and loss-making operations targeted for sale in 2019, leading to opportunities for other players.

Balkan bank privatizations

Privatization efforts in the West Balkans are gathering speed. Governments need cash and wish to relinquish the burden of running large retail banks, creating openings for investors looking to tap into the growth markets of Southeast Europe.

NPL sales still desirable

Substantial progress has been made in NPL portfolio cleansing. However, NPL sales are still desirable in the region, leading to a further decline in the NPL ratio and higher profitability. Additionally, in the next 2 years, changes in legislation, combined with improving fundamentals, should see almost all countries experiencing lending growth, with even the laggards picking up.

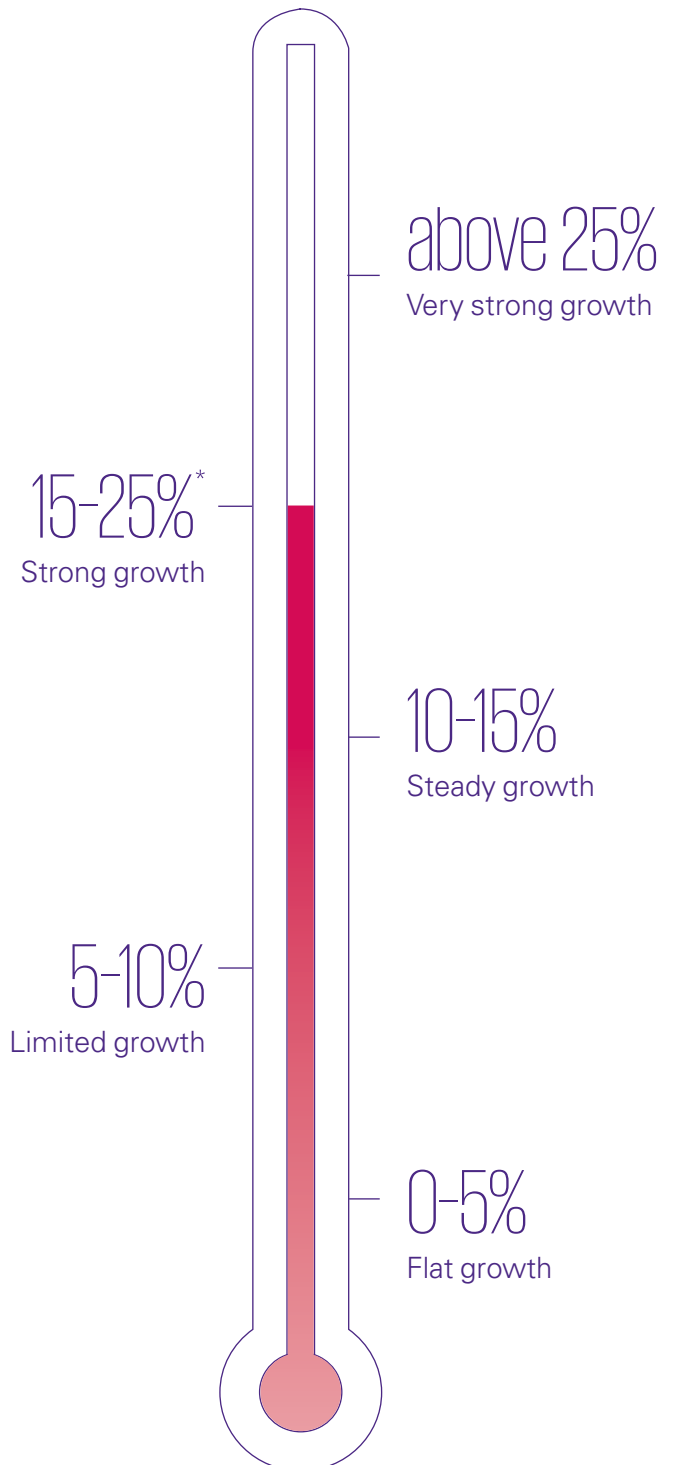
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Marginal players are ready to consider offers.”

Tamás Simonyi

Partner,
Deal Advisory Financial Services, CEE
KPMG in Hungary

M&A forecast



*Strong growth depends on privatizations going through

Trend 6: Africa

- **Consolidation among banks to accelerate in 2019**
- **Partnership between banks and telecoms to drive fintech**



Trends to watch in 2019

Consolidation among banks

Certain regions are undergoing a period of consolidation, such as East and West Africa, where many smaller banks are under-capitalized and lack either the systems or the competencies to manage credit, market and operational risk. Consequently, regulators are encouraging market consolidation to help mitigate these risks and promote stability — which may ultimately result in a few large banks dominating the region, with a significant volume of deals to purchase smaller banks.

The irresistible force of fintech — powered by telecoms

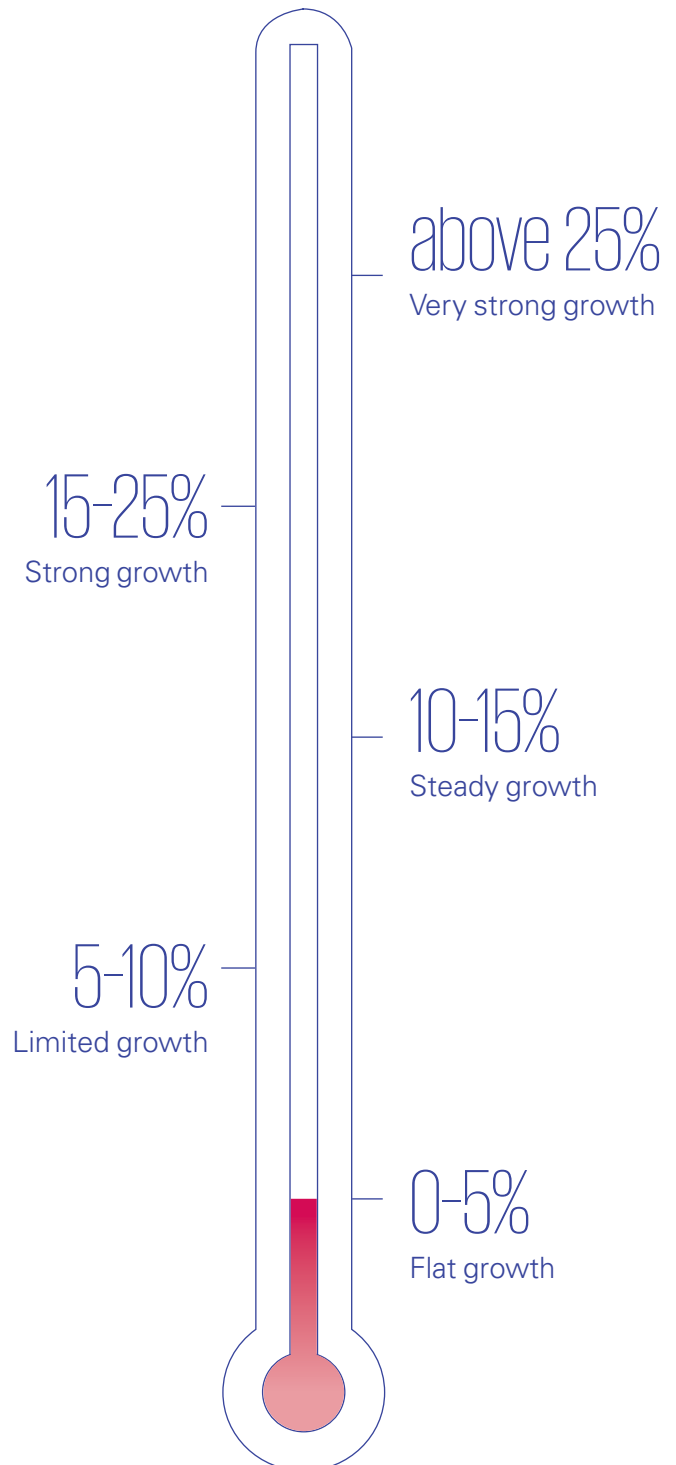
Inadequate banking infrastructure, low banking penetration and young, tech-savvy millennial populations have paved the way for fintech and telecom companies to revolutionize Africa's financial services. Enabled by telecoms, mobile money accounts have had a dramatic impact on financial inclusion. But this doesn't mean that banks are out of the picture; they're now beginning to edge their way into fintech by building partnerships with telecoms. We expect such partnerships to drive M&A activity in the region and create significant interest from both strategic and financial investors.

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You can't paint Africa with one brush, neither can you import a foreign business model or product without local adaptation. To succeed in Africa, investors need to create unique solutions based on local needs, leveraging technology to achieve scale and long-term profitability.”

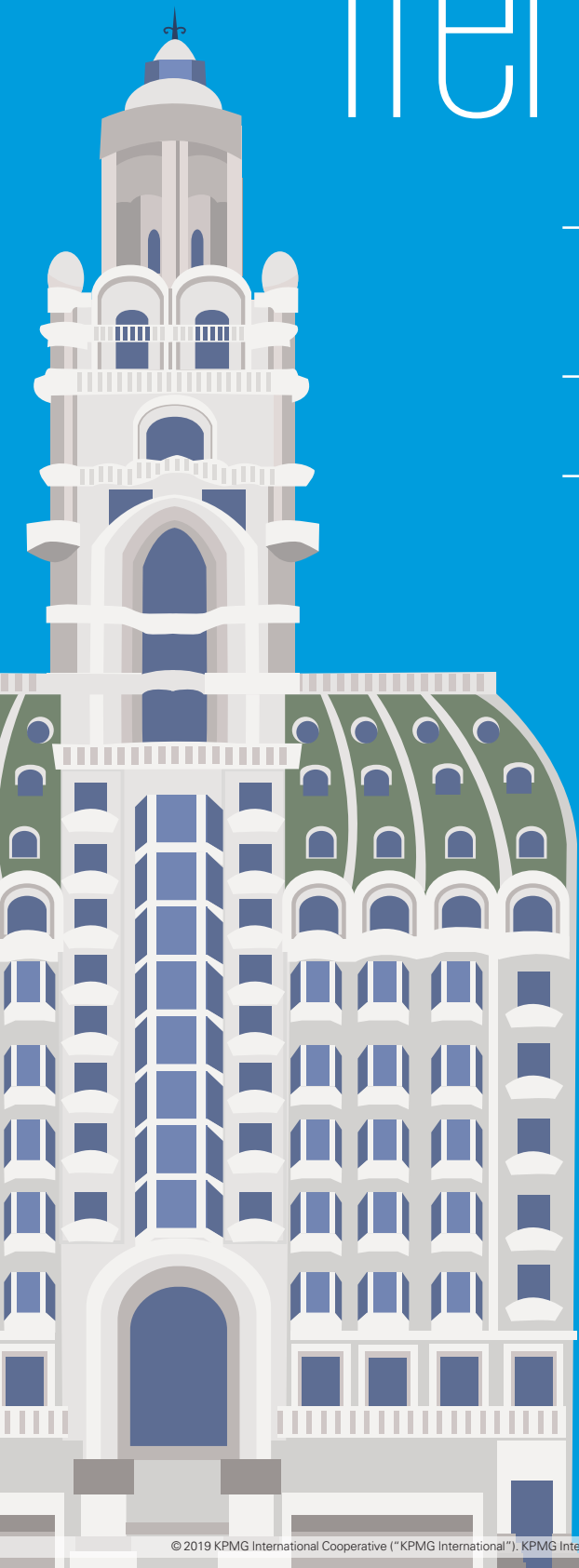
Dapo Okubadejo
Partner,
Deal Advisory Financial Services
KPMG in Nigeria

M&A forecast



Trend 7: LATAM

- **Regional banks to accelerate cross-border deals**
- **Fintech deals on an upswing**
- **Argentina's credit card market opens up for competition**



Trends to watch in 2019

Regional banks are still an important bet

Overall, the market has passed through a strong consolidation process. With the exception of Spanish banks, global players have reduced market share in most countries; however, regional banks continue to be attractive targets in the region. In keeping with worldwide trends, valuations have dropped by half, but multiples remain higher than Europe and the US, as LATAM banks remain highly profitable. Regional banks are also expanding their footprint non-organically, further strengthening cross-LATAM deal activity in the region.

Growth agenda to be driven by digital transformation and innovation

Banks in LATAM are picking up the pace in moving to digital. Many players are acquiring or partnering with fintech companies, primarily to build out capabilities in payment processing, front-end customer acquisition and mobile wallet. As banks' growth agenda is driven by digital transformation and innovation in response to client demands, we expect a continuous wave of deals with regional fintech players. Additionally, neobanks are gaining attention as potential solutions to large-scale financial exclusion across LATAM.

Deregulation of acquiring market in Argentina

The deregulation of the financial market by the central bank should provide opportunities in payment processing and non-regulated finance, incentivizing the entry of new players and increasing competition. Argentinian banking M&A is expected to be largely driven by fintech and changes in the payment processing market.

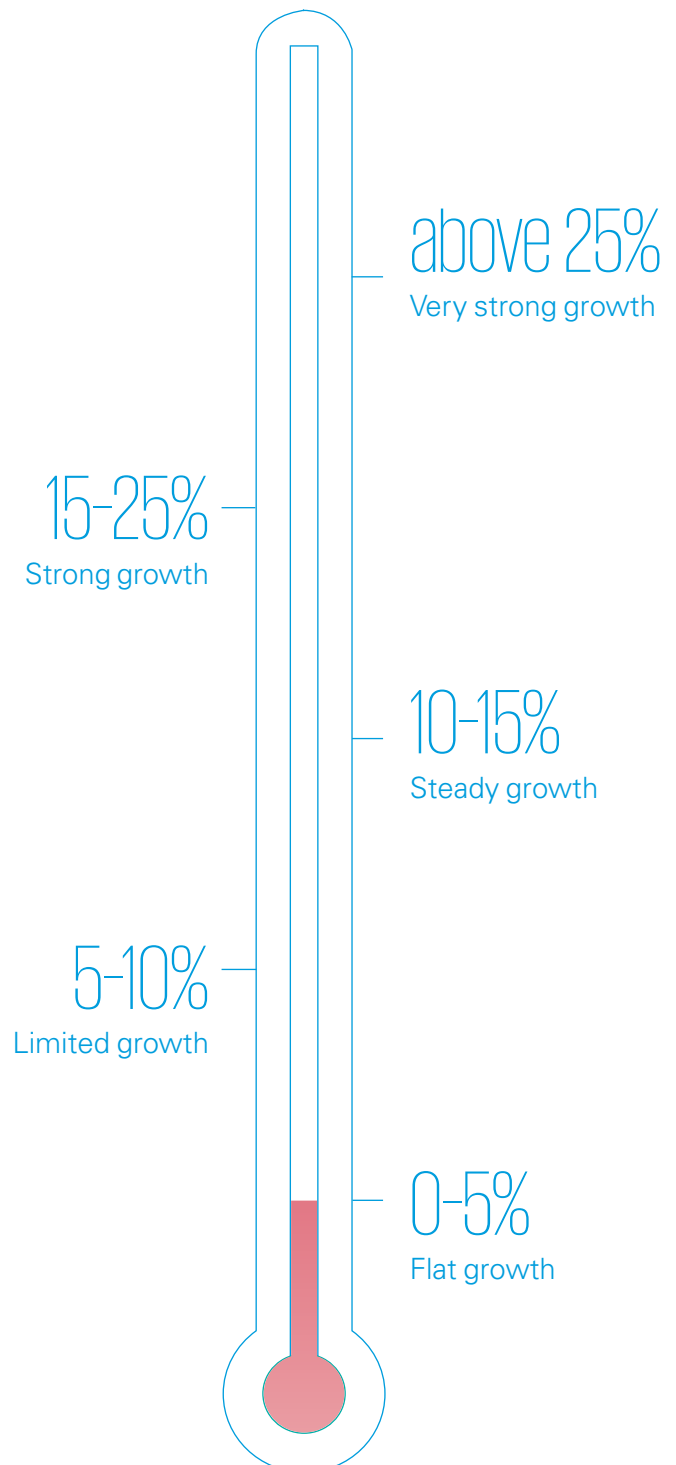
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While global players have significantly reduced their presence in the region, local domestic giants are not only expanding their territories, but also winning the race for innovation and excellence.”

Fernando Mattar

Partner,
Deal Advisory Financial Services
KPMG in Brazil

M&A forecast



Trend 8: Non-performing loans (NPLs)



- **Regulatory pressures continue to linger over the European deleveraging landscape**
- **International investors to shift focus from Europe to Asia as an alternative investment opportunity**

Trends to watch in 2019

Europe

Regulatory pressure to create more opportunities

The region witnessed varying levels of bank deleveraging in 2018. Regulatory changes and European Central Bank (ECB)/Single Resolution Board (SRB) pressure are key to further accelerate deleveraging strategies via portfolio sales. The situation is largely stable in the UK, Ireland, Nordics and some CEE countries. Countries such as Greece, Spain, Italy and Portugal remain key markets for deal activity and are attracting investors globally. In France, Germany, the Netherlands, Turkey and Ukraine, deal activity has been passive, but a new deleveraging wave is expected.

Real estate market is expected to improve passively

There was continued interest in all asset classes in 2018. Some countries have higher SME-secured deal flow while there is recurrent activity in unsecured portfolios in most parts of the region. Both performing and sub-performing portfolios are potential targets in the new trend of deals. Additionally, granular real estate-owned (REO) rented portfolios is a new asset class, and land/work in progress (WIP) portfolios are capturing more interest as the RE market improves. However, political and legal uncertainty can reduce the recovery of the RE market and can also impact investor appetite in some markets.

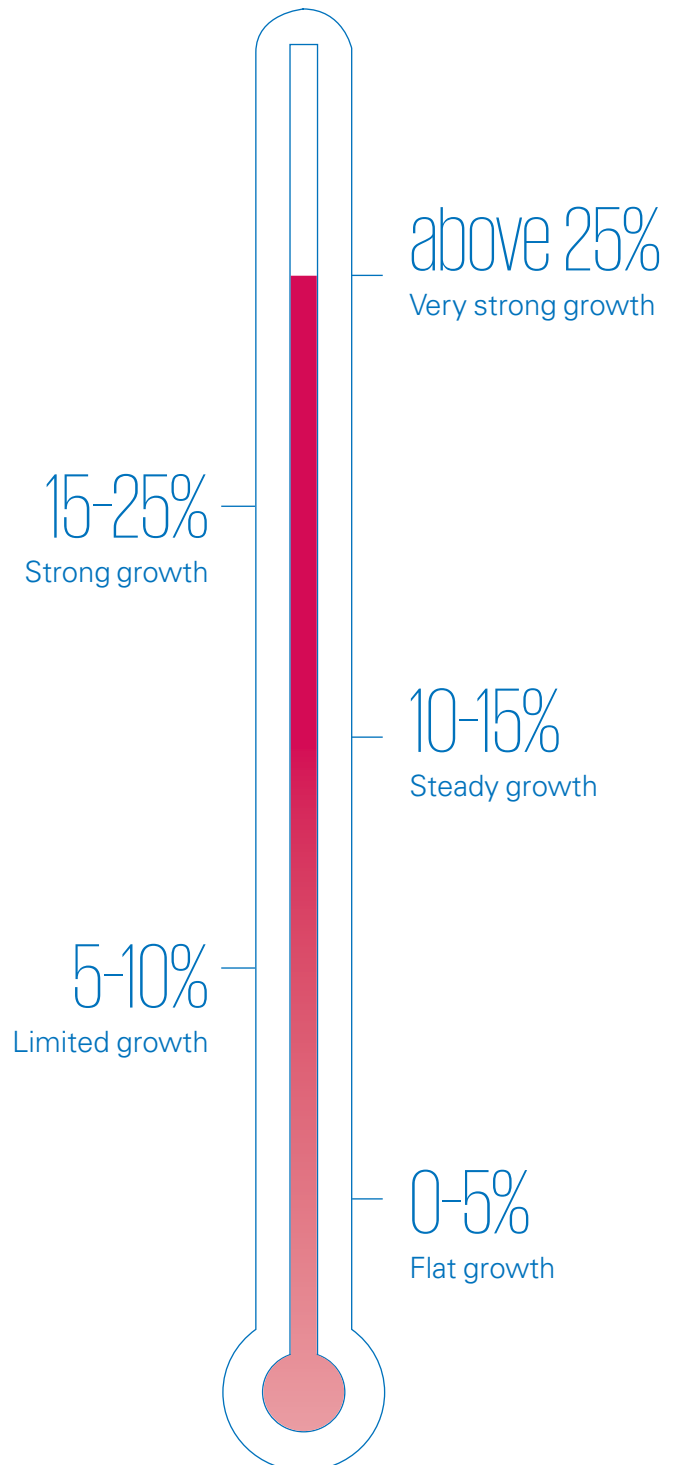


NPLs in Europe, as per European Banking Authority (EBA) data, stand at USD844 billion (747 billion euros [EUR]); an average NPL ratio of 3.6 percent. However, individual country NPL ratios range from 0.6 percent to 46 percent, and countries whose ratio exceeds 4 percent will have to narrow down NPL volume over the next 2 years.



Domenico Torini & Carlos Rubi Montes
Partners,
Deal Advisory Portfolio Solutions Group
KPMG in Italy and KPMG in Spain (respectively)

Europe NPL M&A forecast



Further AMCs and securitization as tools for deleveraging

We still believe the European bank deleveraging story has a few more years to fully unfold. As momentum grows for a recalibration of regulations governing securitization, we expect further asset management companies (AMCs — state or semi state-owned) to be used as a tool for deleveraging or solving specific banking issues. Europe's new securitization regulatory framework, which came into effect fully on 1 January 2019, is expected to broaden investment opportunities for long-term investors. To further tackle the issue of NPL deleveraging, many countries need to attack sub-performing (unlikely-to-pay [UTP]) or hard asset loans.

Servicing market to further evolve

We expect the new regulatory framework to change the market, especially for servicers structured as banks (linked to the calendar provision and the new risk-weighted assets [RWAs] request from the ECB). We also noticed a sharp decrease in the share price of listed servicers — a sign that the servicing market should be very hot and set for further evolution. For example: (i) Spain has seen several secondary deals, where new industrial investors have entered the market and large servicers are increasing operations. We expect some consolidation of this market; (ii) Greece still has few players; (iii) Nordic players are relocating their businesses in southern countries; and lastly, (iv) Italy is likely to see consolidation after an intense couple of years of acquisition.

Asia

Deleveraging expected to continue in 2019

This is due to several triggers including the impact of IFRS 9, a stronger regulatory environment, weak commodity pricing, and trade tensions between China and the US causing possible collateral damage across the entire region and a general economic slowdown. As a result, consolidation among SMEs is expected, driven by local regulators to strengthen balance sheets and asset qualities. More IPO activities and securitization products might be promoted to improve capital adequacy, with the latter used as a tool to further deleverage bad loans. This has attracted the attention of US and European special situation funds, as well as international asset servicing companies like Pepper, who are experienced in picking up distressed assets at a discount.

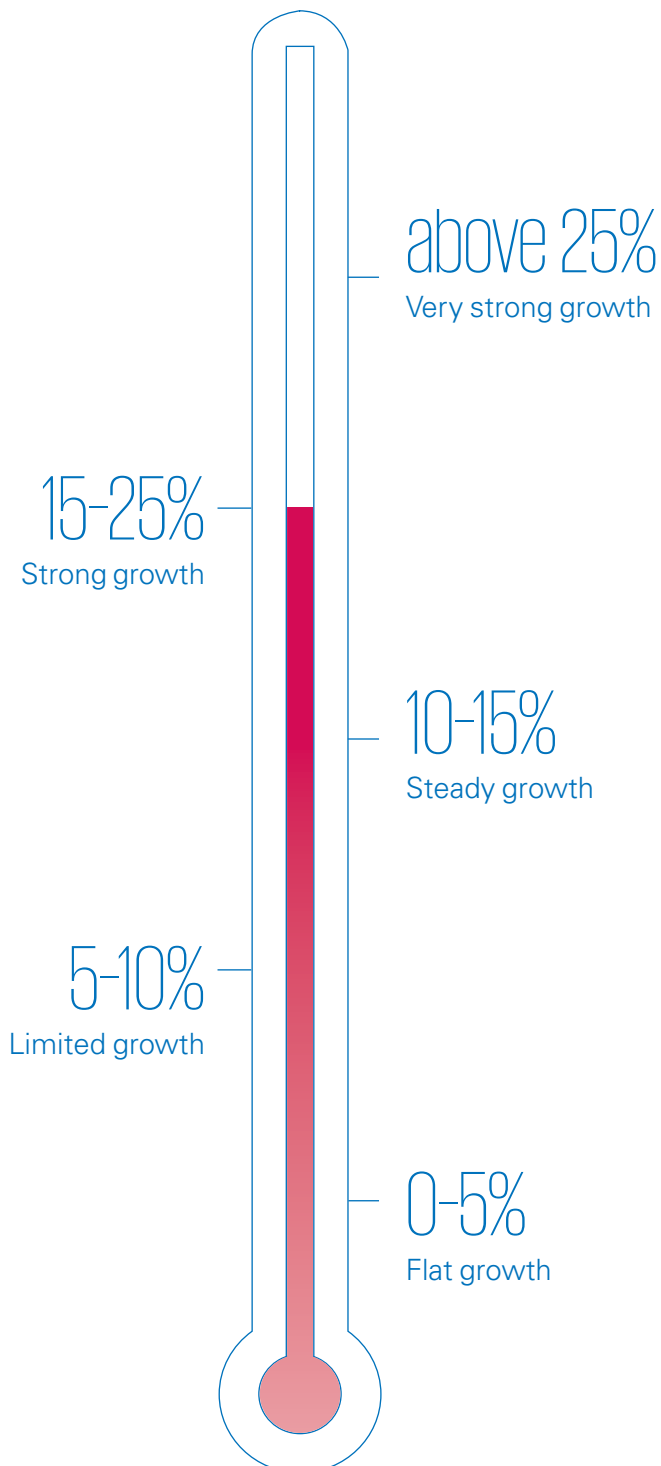
New set of investors to tap Asian market

The interest of investors globally should accelerate, because local banks and AMCs are under pressure to offload their NPL inventory faster and at a deeper discount. Additionally, liberalization/opening-up of the banking sector is expected to attract more local and international investors into the distressed market to purchase assets from local banks. Traditional buyers have been local PE firms and individual investors, but listed companies and industrial players are now emerging as players. With the new entrance of internet transaction platforms like Alibaba or Taobao, and local financial asset exchange with the launch of NPL transaction services, more investors are expected in 2019. International investors should gradually shift their focus from Europe and start to consider Asia as an alternative investment opportunity.

Economic and structural reforms to foster and create further opportunities

These reforms should continue and intensify in China and most Asian countries. Restructuring and reorganization typically accompany distressed and special situation opportunities. These opportunities are highly correlated to the disposal of NPLs and non-performing assets (NPAs). International investors initially positioned for NPL portfolio trade are likely to gradually seek single credit and sizable distressed opportunities. As China gradually opens up its financial services markets, we expect more international investors to take an interest in NPL transactions and also consider investing in AMCs and other servicing platforms, to build a more holistic and full-value-chained asset management and servicing business in China.

Asia NPL M&A forecast



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A combination of economic slowdown, property market correction, trade tensions and strong regulations, mean NPL ratios and volumes might continue to grow from an official single-digit ratio to a broader double-digits (including impaired non-NPL). At the same time, value could rise from a few hundred billion to more than a trillion dollars. Meanwhile, international investors should also gradually shift their focus from Europe to Asia as an alternative investment opportunity.”

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Wilson Pang

Partner,
Deal Advisory Portfolio Solutions Group
KPMG China

Trend 9: Fintech



- Large value deals and more funding anticipated in 2019
- Banks to partner or co-work in niche areas to mutualize costs

Trends to watch in 2019

Increased activity by VC funds and large deals anticipated

Venture capitalists (VCs) remain excited about funding fintech start-ups across a wide range of sub-sectors. Payments and lending continue to dominate the global fintech investment landscape, both in terms of number of fintechs and the level of investment; however, we are seeing emerging levels of interest in data and AI, RegTech and crypto-assets/currencies. M&A activity is also growing as more mature fintechs (such as payment firms) seek exits or international expansion into new markets. Large deals at all stages powered fintech investment in the first half of 2018. During this period, the global investment in fintech reached a new record high, driven in part by two massive deals — the USD12.9 billion acquisition of Worldpay by Vantiv and the USD14 billion VC funding round raised by Ant Financial. This pattern of fewer, larger deals is expected to continue in 2019 as it indicates that the global fintech market is maturing at a fast pace.

Banks to co-work

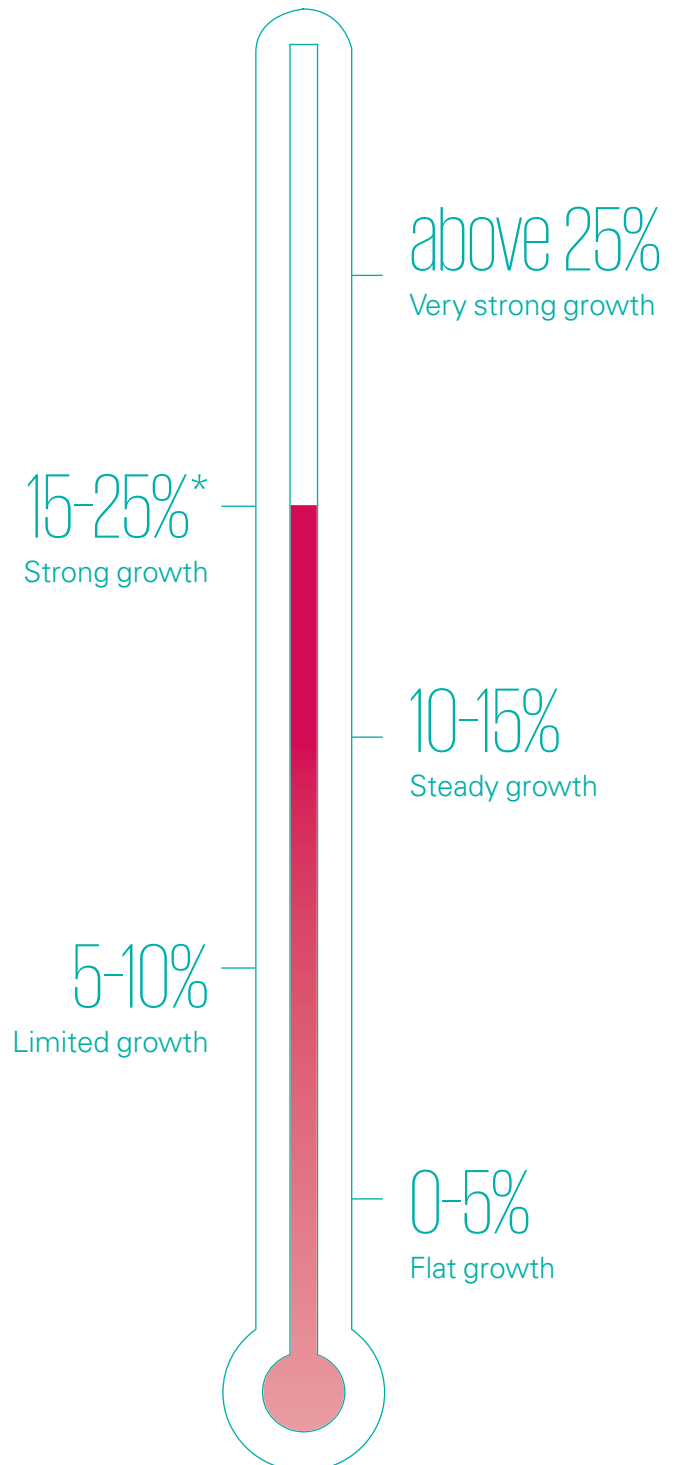
We expect to see banks working together in some markets, and in some cases, co-investing in order to mutualize costs in areas of limited-to-no competitive advantage. These areas are likely to be know your customer (KYC) and anti-money laundering (AML). Furthermore, banks are likely to look for more strategic partnerships and investments to help them pursue business model extensions and new growth opportunities. Some banks have paraded corporate venture funds to carry out transactions, but most have pulled back, with concerns about integrating start-ups into the organization and/or a preference to do it in-house. Consequently, there is a greater willingness to get involved in JVs or partnerships with fintechs, for instance, with online/digital lenders.

“

In the past 12 months, we have seen banks/corporates (directly and through their VC funds) double the level of investment in fintech to reach a record level of USD23 billion. This now represents around a quarter of all investment in fintech, and we expect this trend to continue.”

Ian Pollari
Partner,
Global Co-leader, KPMG Fintech practice
KPMG Australia

M&A forecast



**if this includes investment as well as acquisitions*

Trend 10: Private equity



- **Significant amounts of 'dry powder' to invest globally**
- **Strong competition expected from new entrants, disruptive companies and fintech players**

Trends to watch in 2019

ASPAC

Favorable economic conditions to bolster PE activity in 2019

Across ASPAC, there has been increasing PE interest in banking targets and special situation opportunities, particularly in ASEAN. With growing dry powder, PE funds should continue to focus on banking and wider financial services, given fundamental macro growth trends, an emerging consuming middle class, large unbanked populations and improving technology accessibility through platforms. Recently, both PE and SWFs have made significant investments in leading Vietnamese commercial banks with a number of smaller funds following suit. Potential targets include commercial banks, consumer and micro finance companies, to take advantage of rising levels of income, urbanization and financial inclusion. This has also driven interest in fintech and payments sectors, enabled by increased smartphone penetration across the region. PE funds are also eyeing platform companies who are able to develop ecosystems through proliferation of new technologies and tap into the banking space through payment capabilities. With growing competition in this area from new market entrants, disruptor companies and investors, platforms are seen as a hotbed of activity.

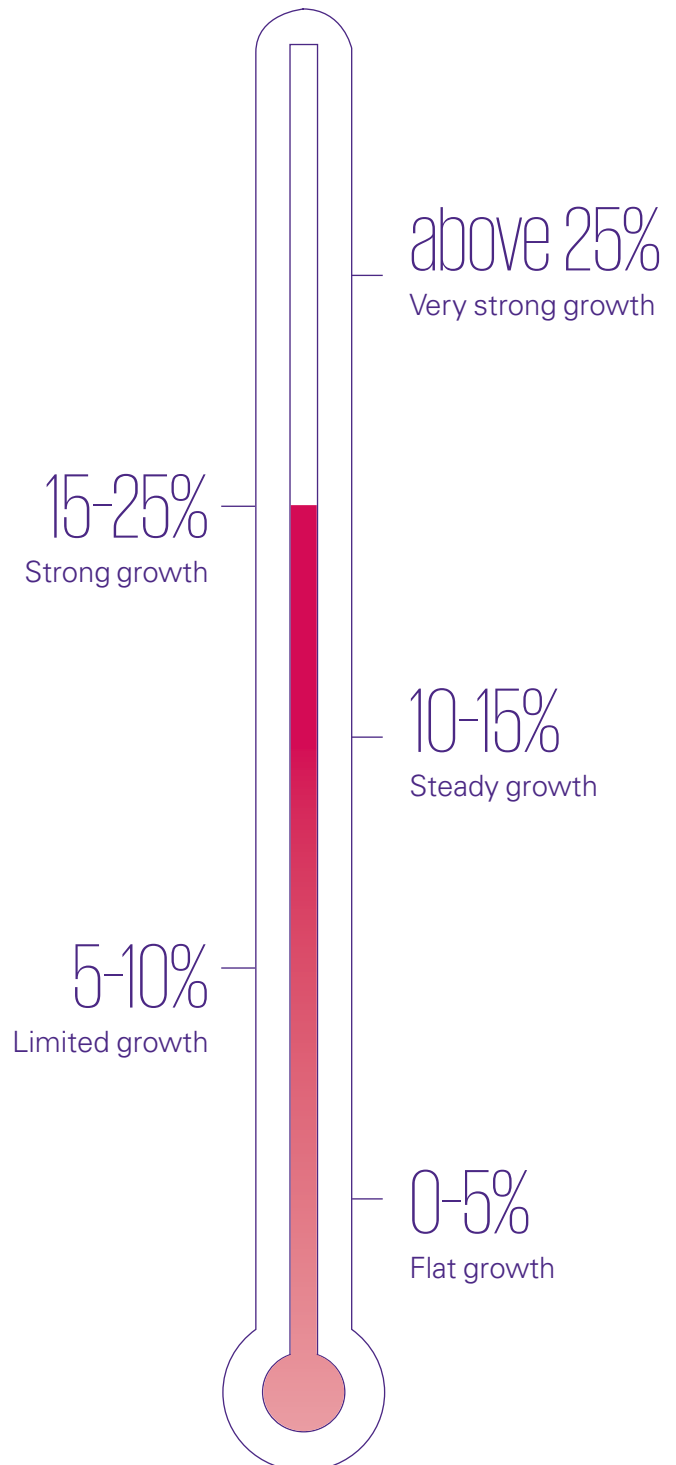
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In the next few years, we expect 20–30 percent of the regional dry powder raised by PE funds in 2017 and 2018 to be deployed in ASPAC in financial services deals. Their key focus is to develop value, harnessing the regional macro trends alongside technology and digital disruption.”

Stephen Bates

Partner,
Deal Advisory Financial Services
KPMG in Singapore

M&A forecast



Europe

PE available to invest

PE investment trends are expected to continue in the face of record levels of dry powder at PE firms, digital disruption in banking and continued deleveraging in Europe. Globally, the PE industry currently sits on approximately USD3 trillion AuM with over USD1 trillion as dry powder to invest — and no sign of a slowdown.

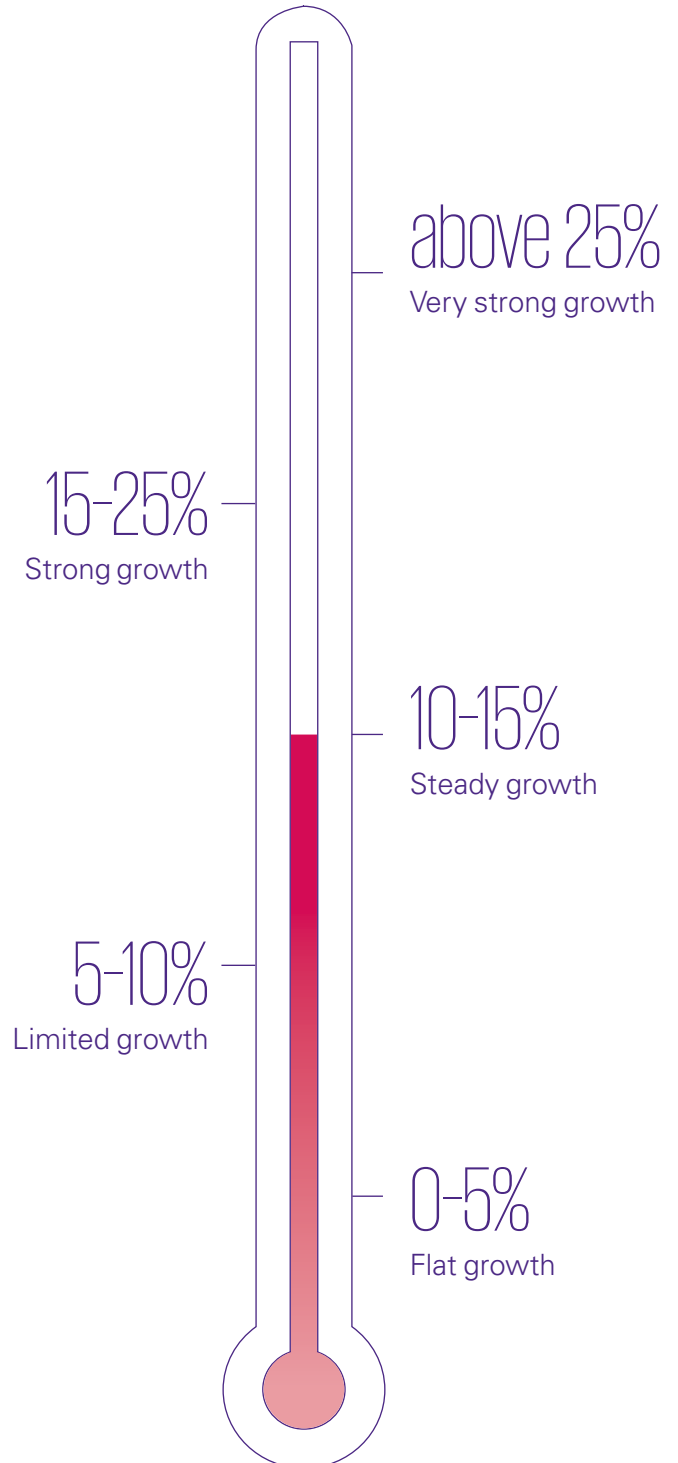
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PE investors continue to remain interested across the FS spectrum from banks, NPLs, specialty finance, payments, insurance distribution and European life sector consolidation. More PE houses are looking actively in the insurance sector, both for assets and also how long-term insurance liabilities can be deployed in credit strategies (e.g. Apollo Global Management & Athene Holding and TPG & Clara-Pensions). ”

Jeremy Welch

Partner,
Deal Advisory Financial Services
KPMG in the UK

M&A forecast



Americas

The US PE market remains buoyant

PEs continue to work hard to put excess mounds of dry powder to work, amid ever-increasing competition from peers and cash-laden corporates. Additionally, sector-dedicated funds are still entering the market, often co-investing with generalist funds. While traditional bank M&A remains challenging for PE, due to regulatory-imposed ownership limitations, specialty finance remains attractive as investors seek out the next niche lending business. Furthermore, auto lending and adjacent sectors show signs of returning to popularity after a long respite. Payments, asset/wealth management and other business services that serve financial services firms should continue to be arenas for investment. Fintech, however, remains challenging for PEs due to inflated valuation expectations in line with tech companies in the US. 2019 is likely to be the year in which investors figure out whether the time is ripe to apply robotic process automation and AI to mainstream financial institutions.

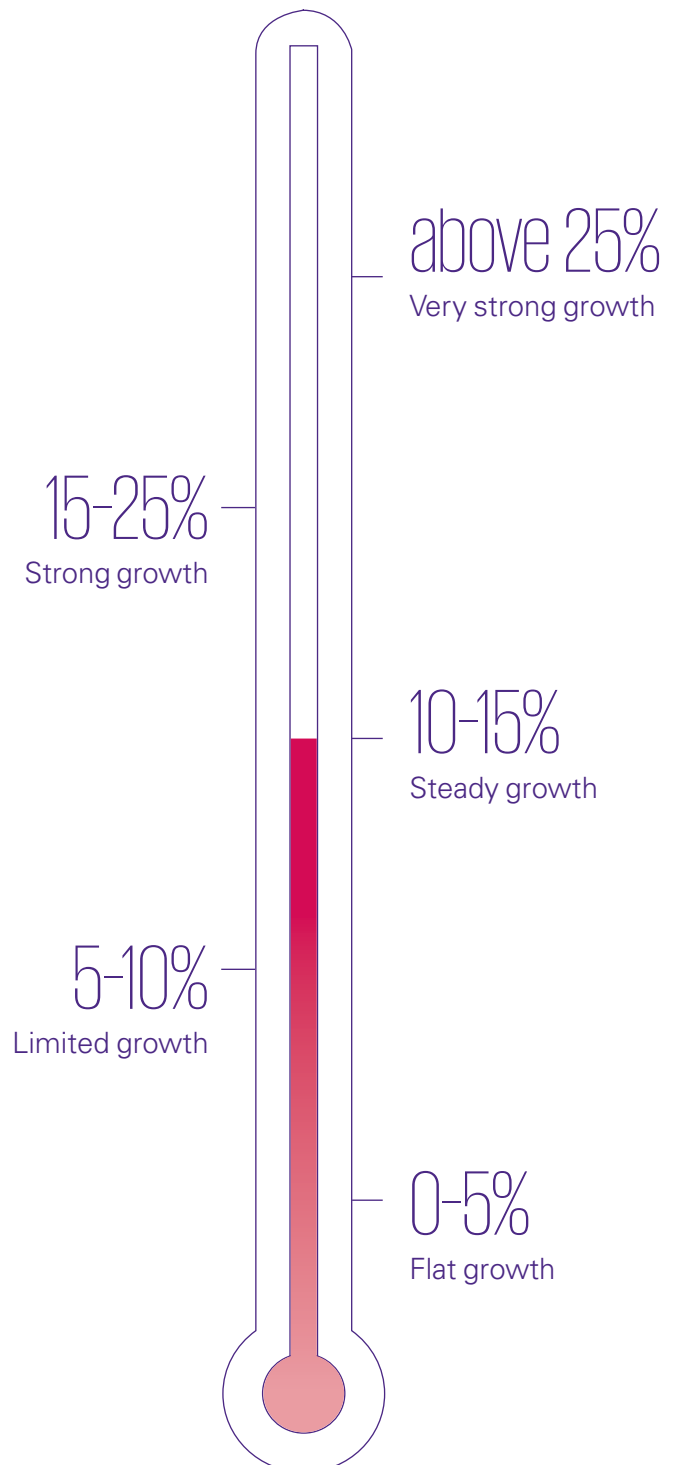
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As more established fintechs transition to the next phase of maturity, PE investors should be watching carefully to see who can achieve mainstream credibility as a differentiated service offering.”

Miguel Sagarna

Partner,
Deal Advisory Financial Services
KPMG in the US

M&A forecast



How can KPMG help?

At KPMG firms, we think like investors, looking at how opportunities to buy, sell, partner or fund a company can add and preserve value. Our teams of specialists combine a global mindset and local experience with deep sector knowledge and proprietary analytic tools to help you navigate a complex, fragmented process. KPMG professionals can help with business strategy, acquisition strategy, plans for divestments or for raising funds.

Related publications



Frontiers in Finance

A focus on workforce transformation by examining the evolving relationship between humans and machines, cultural change and key talent strategies.



Venture Pulse

An in-depth analysis on venture capital investments across North America, EMEA and ASPAC; covers a range of issues such as financing and deal sizes, unicorns, industry highlights and corporate investment.



M&A Predictor 2019

Competitive pressures are encouraging leading PE funds to reassess their M&A processes. KPMG professionals provide an overview of recent changes in PE's relentless pursuit of value and consider the reasons behind these trends.



The trajectory of transactions

View latest survey and read highlights of corporate development trends within the banking industry and offers ways teams can innovate their strategies to embrace disruptive change.



Pulse of Fintech H2 2018

Global fintech investment in 2018 doubled to USD111.8 billion, driven by mega M&A and buyout deals. New fintechs continue to emerge with niche product offerings, while mature fintechs, particularly in payments, continue to build scale and expand internationally. The future looks positive — funding in regtech and insurtech are expected to rise and open banking (open data/APIs) will remain a key theme in attracting investors and spurring competition.



2018 FINTECH100 Leading Global Fintech Innovators

The Fintech100 is a collaborative effort between H2 Ventures and KPMG. In its fifth year, the Fintech100 uncovers and evaluates the most innovative Fintech companies globally.



UK SMEs: A prime battleground for Open Banking

The financial services marketplace for SMEs is an exciting area for Open Banking. We see this space as ripe for innovation and competition. Based on a survey with 1,000 UK SMEs, KPMG's report explores their attitudes towards Open Banking.



The rise of challenger banks

How challenger banks and neo-banks are fast becoming a global movement in the financial services industry

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