

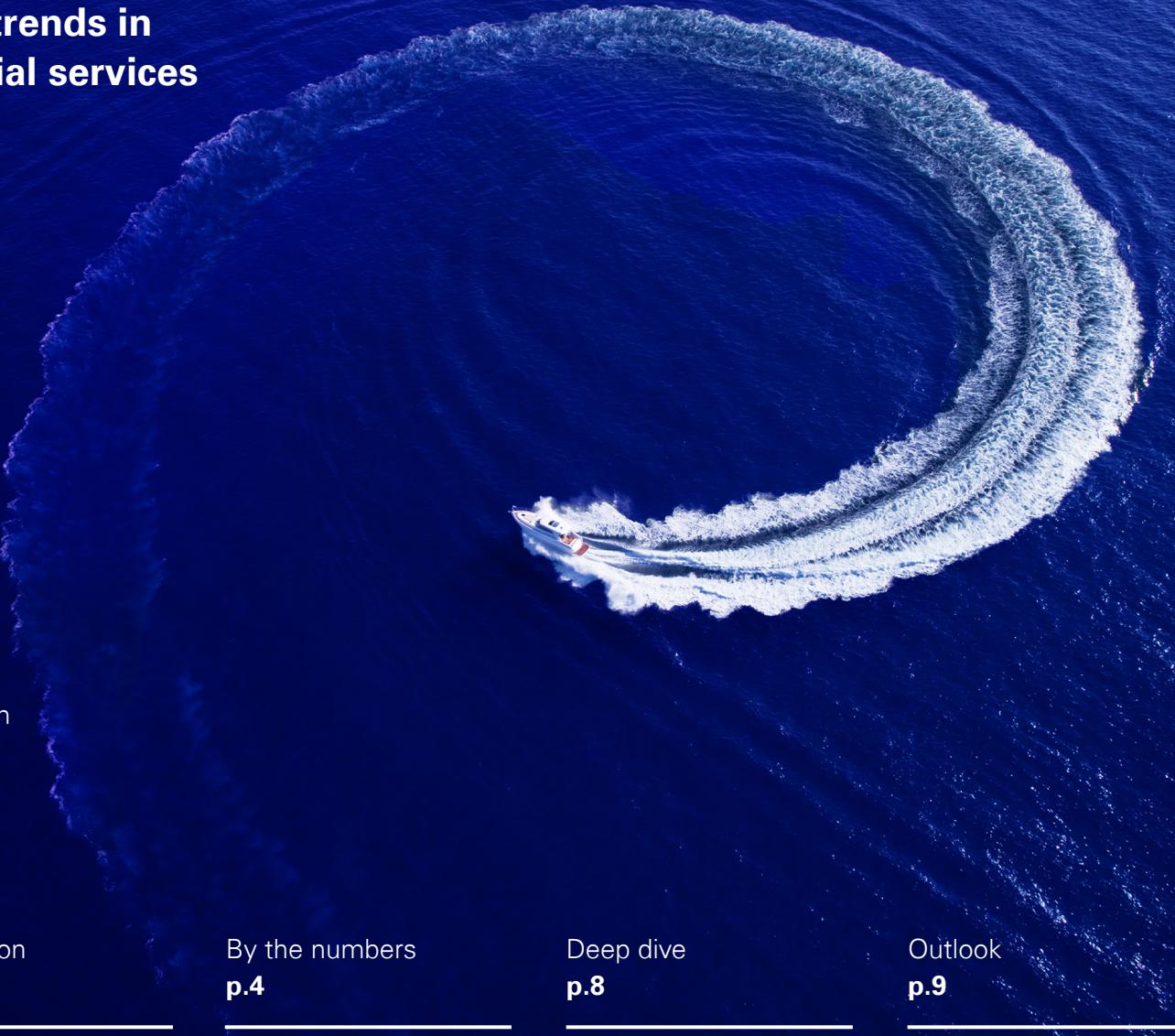


# A slow turning

**M&A trends in  
financial services**

**2023**

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## Introduction

# Closing the books on 2023

- Mergers and acquisitions activity among financial services (FS) companies dropped in 2023 from 2022, the second consecutive annual decline since the boom year of 2021. Total volume fell 31.6 percent to 4,724 deals and value plummeted 52.1 percent to \$247.2 billion.
- Annual comparisons were similarly negative for the main FS subsectors (i.e., banking, capital markets, and insurance) as well as strategic and private equity transactions.
- Concerns about rising interest rates and inflation—and their possible impact on the economy—dominated deal makers' thinking. The Federal Reserve acted aggressively to crush inflation in 2022 by raising its benchmark federal funds rate by a whopping 4.50 percentage points, and added another 0.75 points in 2023 to bring the rate to a range of 5.25–5.50 percent.
- Faced with much higher capital costs and the possibility of recession, most potential acquirers chose to stay on the sidelines and focused on increasing operational efficiencies and reducing expenses.

- Both the environment and our outlook have changed as 2024 begins. We agree with the consensus view that the Fed has completed its rate-hiking cycle and should begin to cut rates later in the year—which bodes well for deal making.
- To be sure, obstacles remain, and we don't see bright green lights ahead just yet. Overall, though, we're optimistic that the level and pace of FS M&A activity will rise in 2024.



**Jonathan Froelich**

*Partner*

*Deal Advisory & Strategy*

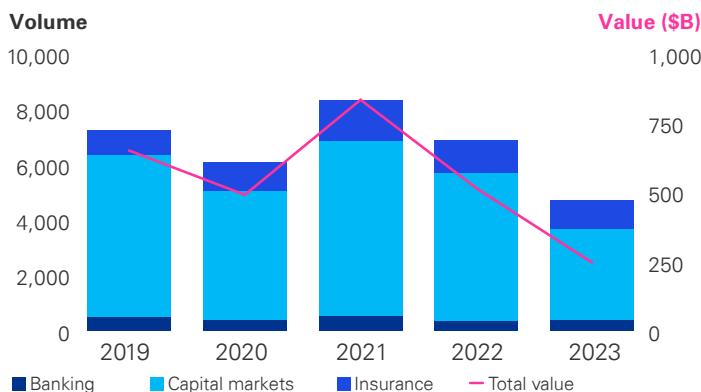
*FS Leader*

## 2023 highlights

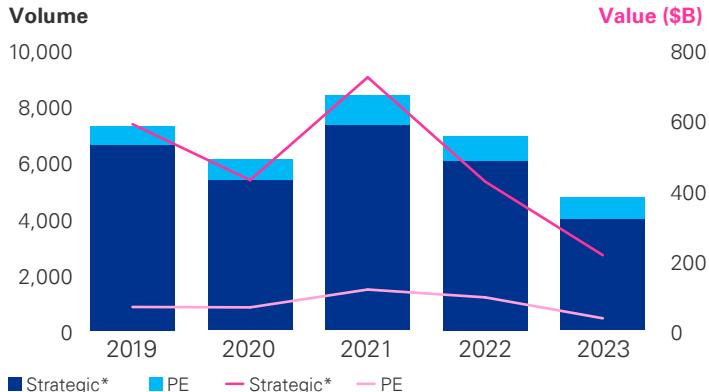
**4,724** ▼ -32%  
Deal volume  
decrease YoY

**\$247.2** ▼ -52%  
Deal value (billions)  
decrease YoY

## FS deal activity by sector



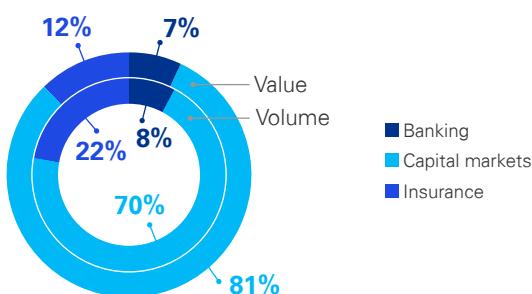
## FS deal activity by type



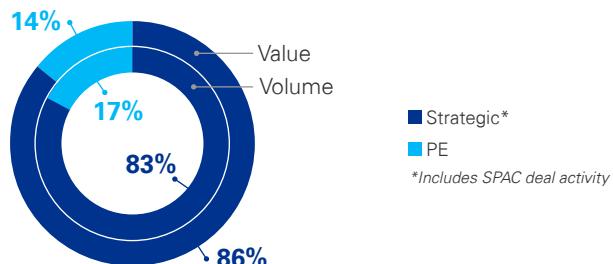
## 2023 deal mix

Outer ring represents value, inner ring represents volume

### Sector mix



### PE/Strategic mix



## Top strategic deals in 2023

Acquirer	Target	Value (billions)
Aon plc	NFP Corp.	\$13.4
Extra Space Storage Inc.	Life Storage, Inc.	\$12.7
Nasdaq, Inc.	Adenza Group, Inc.	\$2.6
Realty Income Corp.	Spirit Realty Capital, Inc.	\$9.3
Berkshire Hathaway Inc.	Pilot Travel Centers LLC	\$8.2

## Top PE deals in 2023

Acquirer	Target	Value (billions)
GTCR	Worldpay	\$11.7
Clayton, Dubilier & Rice, Stone Point Capital	Focus Financial Partners	\$7.0
Vista Equity Partners	Duck Creek Technologies	\$2.6
ION Group, The Carlyle Group	Prelios	\$1.5
Centerbridge Partners, GIC Real Estate	INDUS Realty Trust	\$0.9

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 12/31/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.



## By the numbers



Capital markets

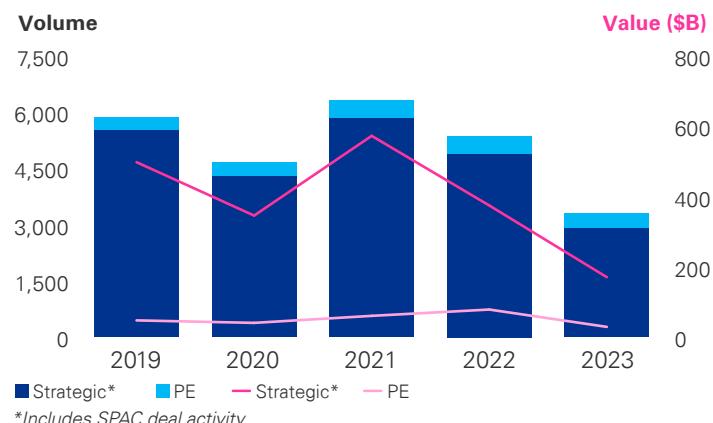
# Looking for a rebound in 2024

- Last year was an especially challenging one for M&A in capital markets businesses. Compared to 2022, deal volume fell 38.2 percent to 3,310 and value dropped 55.9 percent to \$200.2 billion—the biggest such percentage declines recorded in 2023 by our main financial services subsectors.
- On a more positive note, capital markets accounted for six of the year's seven largest FS deals by value, as well as four out of the five biggest in both the strategic and financial (i.e., private equity) categories.
- The highest-value capital markets transaction—Extra Space Storage's acquisition of Life Storage for \$12.7 billion—was strategic and featured two leading real estate investment trusts in the storage business. Extra Space gained scale (it became the largest U.S. storage operator) and geographic diversification, as well as the opportunity to achieve major cost synergies.
- We're optimistic about the prospects for capital markets M&A in 2024 particularly if, as we expect, the interest-rate environment improves. Areas we believe will be especially active include financial exchanges looking to expand their data-related capabilities, alternative asset managers seeking to consolidate or be acquired by traditional managers, and providers of data and analytics focusing on environmental, social, and governance metrics.

## 2023 highlights

<b>3,310</b>	▼ -38%	<b>\$200.2</b>	▼ -56%
deal volume		deal value (billions)	
decrease YoY		decrease YoY	

## 2023 capital markets PE/strategic mix



## Top capital markets deals

Acquirer	Target	Rationale	Value (billions)
Extra Space Storage	Life Storage	Market leadership via greater scale and diversification	\$12.7
GTCR	Worldpay	Acquiring control of major player in high-growth market	\$11.7
Nasdaq, Inc.	Adenza Group	Improving standardization, addressing market reform, accelerating digitization	\$10.5
Realty Income Corp.	Spirit Realty Capital	Earnings accretion and portfolio diversification	\$9.3

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## By the numbers



Banking

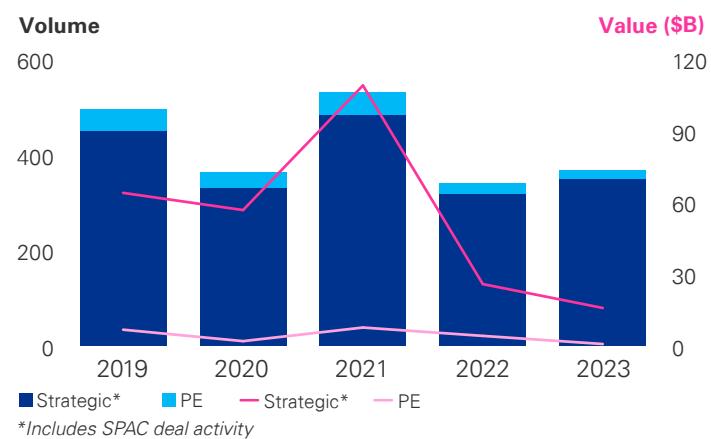
# Another year of consolidation

- Banking was the only FS subsector whose deal volume increased in 2023. There were 366 banking deals, up 8.0 percent from 2022. Value was another story: It fell 44.9 percent to \$16.4 billion.
- While the difficult macroeconomic environment hindered overall activity, the consolidation trend among regional (i.e., midsize and small) banks remained strong. Regionals continued to seek growth through scale, and many acquired others to grow their deposit bases, expand their geographical reach, and strengthen their traditional lending businesses.
- The year's two biggest regional deals featured opportunistic moves for banks weakened by market conditions. These were First Citizens Bank & Trust's purchase of the failed Silicon Valley Bank for \$5.0 billion, and the \$1.1 billion acquisition of PacWest Bancorp by Banc of California.
- Consolidation also occurred among fintech companies, which figured in two of the four highest-value banking deals. Canadian payments tech provider Nuvei bought a U.S.-based payments company, Paya Holdings, for \$1.3 billion, and Visa paid \$1.0 billion to acquire Brazilian fintech Pismo, which provides digital banking and credit card services.
- We believe that banking M&A in 2024 will highlight fintechs and strategic divestitures. Several significant hurdles—the need to mark down existing loans and debt due to high interest rates, lack of clarity regarding the composition and implementation of the Basel III Endgame capital rules, and uncertainty about the presidential election in November—should combine to dampen the level and rate of overall activity.

## 2023 highlights



## 2023 banking PE/strategic mix



## Top banking deals

Acquirer	Target	Rationale	Value (billions)
First Citizens B&T	Silicon Valley Bank	Opportunistic acquisition of discounted assets	\$5.1
Nuvei Corp.	Paya Holdings Inc.	Acquiring high-growth payments platform, diversification	\$1.3
PacWest Bancorp	Banc of California	Opportunistic acquisition of discounted assets	\$1.1
Visa	Pismo Soluções Tecnologicas	Strengthening digital banking and credit card services	\$1.0

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## By the numbers



Insurance

# Key trends remain strong

- Insurance M&A modestly declined in 2023 versus 2022. Deal volume fell 13.3 percent to 1,048 and value dropped just 6.4 percent to \$30.6 billion.
- While rising interest rates and inflation kept many would-be deal makers on the sidelines, the industry's ongoing trends of strategic focus and consolidation continued to drive activity.
- These trends were evident in the year's highest-value transactions. The biggest deal in all of financial services was Aon's \$13.4 billion acquisition of NFP Corp. from its private equity owners. Aon—one of the world's largest providers of insurance services and management consulting—gained a significant presence in the fast-growing middle market for insurance brokerage, wealth management, and retirement planning.
- Consolidation was particularly strong in the brokerage segment, where the quest for scale remained paramount. One of the year's biggest insurance deals, for example, was the purchase of Galloway-Chandler-McKinney Insurance Agency from Cadence Bank by brokerage giant Arthur J. Gallagher & Co. for \$904 million. Gallagher was an aggressive acquirer throughout 2023.
- Our outlook for 2024 is optimistic. There is both appetite and capital available for transformative deals as companies continue to pursue strategic options and private equity buyers build out their growing insurance-related businesses. We expect activity to be strongest among brokers, life insurers that want to expand their wealth management and wellness capabilities, and property & casualty carriers looking for scale and operational efficiencies.

## 2023 highlights

**1,048** **-13%**  
**deal volume** **decrease YoY**

**\$30.6** **-6%**  
**deal value (billions)** **decrease YoY**

## 2023 insurance PE/strategic mix



## Top insurance deals

Acquirer	Target	Rationale	Value (billions)
Aon plc	NFP Corp.	Expanding distribution and middle-market presence	\$13.4
Consortium of Freestone Re Ltd., Brookfield Reinsurance Ltd., North End Re SPC, Bam Re Holdings Ltd., and Bam Re Partners Trust	American Equity Investment Life	Acquiring equity stake to achieve 100 percent ownership	\$4.3
RenaissanceRe Holdings	Validus Holdings	Expanding P&C and specialty reinsurance capabilities	\$3.0
Vista Equity Partners	Duck Creek Technologies	Acquiring next-generation P&C technology	\$2.6

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## By the numbers



PE M&A Trends

### A weak year

- As with financial services as a whole, M&A involving private equity firms weakened in 2023. Deal volume and value fell 10.7 percent and 63.9 percent, respectively, compared to 2022.
- A bright spot amid the downturn was that PE's share of total FS volume rose by nearly four percentage points to 16.6 percent—the highest such share in at least the past five years.
- Among our main FS subsectors, PE activity was busiest in insurance, as firms aggressively sought acquisitions to build out their existing businesses. PE firms accounted for 34.2 percent of insurance volume. The corresponding percentages for capital markets and banking were much lower: 12.4 and 4.6, respectively.

- The year's biggest PE transaction, by far, was GTCR's purchase of a 55 percent equity stake in payments processor WorldPay. GTCR paid Fidelity National Information Services \$11.7 billion for the stake. The deal was the largest in GTCR's history and one of the largest leveraged buyouts in any sector during 2023.

### 2023 highlights

<b>785</b>	▼	<b>-11%</b>	<b>\$33.7</b>	▼	<b>-64%</b>
Deal volume	decrease YoY				
Deal value (billions)	decrease YoY				

### Top PE deals

Acquirer	Target	Rationale	Value (billions)
GTCR	Worldpay	Acquiring control of major player in high-growth market	\$11.7
Clayton Dubilier & Rice	Focus Financial Partners	Gaining greater financial and operating flexibility for Focus	\$7.0
Vista Equity Partners	Duck Creek Technologies	Securing next-generation P&C technology	\$2.6
ION Group	Prelios	Acquiring real estate and credit management businesses	\$1.5

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## AI-powered M&A: The future is now

Generative artificial intelligence (AI) is playing an important role in M&A, with companies not only using it as a tool to help evaluate potential acquisition targets but also to assess how targets themselves use it.

We expect generative AI to become a table-stakes capability for M&A players in the next 12–18 months. If companies aren't already using it, furthermore, they should act quickly to incorporate it into their M&A model going forward.

**Wide application.** There are multiple areas of target evaluation in which generative AI can have an impact. In sales, for instance, it can sift through enormous datasets to provide insights on whether to improve, maintain, or replace a target's existing campaign(s). It can help to optimize the target's employee onboarding experience to be more engaging, as well as identify efficiencies that can enhance customer service outcomes. And an acquirer's analysis of the target's generative AI capabilities can reveal technological and business risks that may need to be addressed.

**Generative AI offers a transformational opportunity to improve the cost structure of either the target or the combined organization post-deal.**

**Cost-structure transformation.** Generative AI offers a transformational opportunity to improve the cost structure of either the target or the combined organization post-deal. It achieves these goals in various ways, such as enhancing task efficiency, upgrading activity quality to reduce or eliminate reworking, and anticipating client needs to streamline related processes. More specifically, it can reduce the potential for operating and credit losses in credit-oriented businesses.

**Active adoption.** Our clients are increasingly proactive about embracing generative AI in M&A. Some firms are experimenting with generative AI models to analyze historical data and market trends, allowing them to identify potential acquisition targets that align with their strategic goals. Others are using AI-powered

chatbots to streamline due diligence and post-merger integration processes by automating routine tasks and answering frequently asked questions.

Moreover, some firms are using generative AI models to simulate merger scenarios and assess potential outcomes, such as the expected impact on financials and operational efficiency. Other clients are leveraging the technology to upgrade the quality and structure of their data and exploring ways to use that data to aid their risk management efforts.

Business-to-business service companies are seeing this trend among their clients, as well, and actively integrating it into their own products and services. Current use cases include large providers of accounting and customer relationship management systems, and we believe many other firms will chart a similar course in the not-too-distant future.

**Significant risks.** As with anything related to AI, there are considerable risks associated with how businesses may choose to use generative AI. We're carefully monitoring the potential risks associated with M&A models that use natural-language processing because they can be corrupted through benign human error or—even worse—intentionally by bad actors.

M&A models also might have inherent biases that could lead them to generate inaccurate, inconsistent, incomplete, or even unreliable results. We encourage companies with generative AI in their model to test the model for bias, accuracy, and consistency. Additionally, firms must be vigilant about potential legal, ethical, or reputational risks associated with using natural-language processing in M&A models.



**Henry Lacey**

*Principal  
DAS Banking and Capital Markets Leader*



**Lio Saucedo**

*Principal  
Deal Advisory & Strategy*

## Outlook

# Optimism—with caveats

Our view on financial services M&A in 2024 is optimistic. But while we expect the level and pace of overall activity to pick up, our outlook varies among our primary subsectors of capital markets, banking, and insurance. We also see a macroeconomic environment that offers both positive and negative signals.

**Mixed macro picture.** The Federal Reserve appears to have completed its latest cycle of raising the benchmark fed funds rate in July 2023. KPMG Economics forecasts that the Fed will start cutting fed funds from its current 5.25–5.50 percent range by mid-2024, the first of several cuts during the year.

This is welcome news for the numerous deal makers that have avoided activity due to interest-rate-related fears about the economy. Lower rates mean lower capital costs—and thus more room for companies both to fund transactions with debt and take on additional debt for operations. Private equity firms, which heavily rely on debt, particularly stand to benefit.

But obstacles remain. KPMG Economics sees these as most problematic: slowing consumer purchasing, a contracting housing market, stalling business investment, and weak government spending. There's also the fact that the economy hasn't yet experienced the full impact of the Fed's aggressive rate hiking.

**Subsector outlooks vary.** We're most upbeat about capital markets. Besides the areas of potential activity we cited on page 3, we believe private equity firms could take significant stakes in large financial institutions whose valuations have been depressed by high interest rates. These institutions need or want capital to drive innovation, while the PE firms have large amounts of dry powder available for deployment.

Insurance M&A also looks promising. The consolidation and strategic focus trends we cited earlier remain strong, and buyers and sellers alike should continue to emphasize deals that improve their growth prospects.

We're least positive about banking. While we expect activity involving divestitures generally and insurtechs specifically, banks face a lack of regulatory clarity and the ongoing effects of high rates. To those concerns we'd add uncertainty about this year's presidential election, whose outcome could bring unanticipated changes in government banking policies.

**A common thread.** M&A featuring asset managers is a common thread weaving through capital markets, banking, and insurance. There are companies in all of the subsectors that could make strategic decisions either to initiate asset management exposure or add to existing holdings, as well as those that could choose to

divest. The same goes for asset managers themselves, who are feeling tremendous pressure to grow by staying independent or sell to someone else.

A notable example is life insurers, who are driving the convergence of their traditional life units with the booming wealth management and retirement planning businesses. The resulting combination—we call it "life, wealth, and retirement"—is appealing to individuals and companies, and is a natural path to long-term growth.

## Key considerations as we look ahead

FS dealmakers thinking about M&A in the current environment should consider the following:

### 1 Divest strategically

In such a challenging period, companies should contemplate divesting noncore units. This is the time to focus on the core and strengthen business lines with the greatest potential.

### 2 Prepare for departure

To maximize their chances for a successful exit, PE portfolio companies must concentrate on improving performance rather than pursuing growth at any cost.

### 3 Do your diligence

Dealmakers must more closely scrutinize their due diligence processes, integration approach, and the financial performance of their transactions.



**Jonathan Froelich**

*Partner*

*Deal Advisory & Strategy*



## How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value. We leverage our depth in the FS industry, data-supported and tools-led insights and full M&A capabilities across the deal lifecycle. Our specialized FS teams bring both transactional and operational experience, delivering rapid results and value creation.

We are passionate about leveraging generative AI as a tool used across the M&A deal decision-making process, and believe that our expertise in this domain can help you unlock the full potential of generative AI for your organization. With over 650 successful use cases across various organizational functions and roles, we can assess generative AI's potential impact on target companies. Our capabilities can add value to your operations, both by helping you determine a target's valuation and by identifying opportunities for cost synergies.

# Authors

**Jonathan Froelich**

Partner

Deal Advisory & Strategy

FS Leader

267-256-1661

[jfroelich@kpmg.com](mailto:jfroelich@kpmg.com)

**Ram Menon**

Partner

Deal Advisory & Strategy

Insurance Leader

212-954-3448

[rammenon@kpmg.com](mailto:rammenon@kpmg.com)

**Henry Lacey**

Principal

DAS Banking and Capital

Markets Leader

646-899-7332

[hlacey@kpmg.com](mailto:hlacey@kpmg.com)

**Lio Saucedo**

Principal

Deal Advisory & Strategy

404-979-2254

[lsaucedo@kpmg.com](mailto:lsaucedo@kpmg.com)

**Ben Lewis**

Managing Director

Deal Advisory & Strategy

917-438-3625

[benlewis@kpmg.com](mailto:benlewis@kpmg.com)

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