
News release

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Global M&A deals expected to rise in 2023, with ESG, portfolio optimisation and digitalisation remaining strategic priorities: *PwC 2023 Global M&A Industry Trends Outlook*

- *Insurers being heavily affected by inflation; Strong M&A activity envisaged in the insurance broker sector.*
- *ESG influencing investment decisions and M&A focus areas due to regulation and mounting pressure from stakeholders*

15 February 2023 – Global M&A continues to face headwinds but is expected to rise in the second half of 2023 as investors and executives look to balance short-term risks with their long-term business transformation strategies, according to PwC's 2023 Global M&A Industry Trends Outlook.

In the Financial Services (FS) Sector M&A is, and will continue to be, a driver of transformation as incumbents look for strategic partnerships and consolidation opportunities to boost digital capabilities, counter the disruption from platforms and fintechs, and address sustained pressure from regulators.

FS dealmakers nonetheless face challenges from the current uncertain macroeconomic market environment, including slowing GDP growth, inflation, higher interest rates and disruption resulting from the Russia–Ukraine conflict, and fallout from cryptocurrency failures. Other factors compounding these challenges include supply chain disruption in the real economy, indirectly also affecting the FS industry, competition for highly skilled talent, and accelerated digital and cloud transformation.

Business owners have not faced such pressures with such intensity before. Transactions have become more complex, and this is requiring FS dealmakers to consider different scenarios and create robust value creation plans. The greatest M&A opportunities in FS will likely exist in customer-led transformation; supply chain; operations; cloud; finance transformation; and environmental, social, and governance (ESG).

Disruption from platforms and FinTech is driving rapid technological changes across Financial Services and will boost M&A as players seek to acquire digital capabilities.

Insurance sector M&A trends

Insurers' overall financial performance and business models are being heavily affected by inflation and higher interest rates in the following ways:

Inflation effects:

- Premiums are lagging behind inflation rates. Insurers struggle to increase their pricing at the same pace as inflation. Property and casualty insurers are facing particularly strong product pricing challenges.



- High inflation in goods and services is driving up costs of personal insurance claims. The non-life segment is more affected than the life segment, especially through property and motor claim costs.
- Operational expenses are increasing because labour costs, a key component of insurers' operational expenses, are being driven up further by wage inflation.

Interest rate effects:

- Changing policyholder preferences may result in higher demand for products supported by higher interest rates, such as guaranteed savings.
- Disintermediation risk as rapid interest rate rises may result in policyholders surrendering policies faster.

Matt Britten, Partner, Insurance, PwC Bermuda, said: *"The need to accelerate transformation for insurers is critical. In this challenging environment, it is time for insurers to clearly define their core business and decide which business areas will drive future growth and should be retained, and which to exit or dispose of, with the aim of deriving the greatest value from the divestment."*

He added: "M&A tends to slow during times of uncertainty or market volatility – but those can be precisely the times when valuations become more attractive and opportunity knocks."

Strong M&A activity is also envisaged in the insurance broker sector. Several insurance brokers held by their founding and private owners, or representing the acquisition platform for private equity firms, are already in the process of significantly consolidating the market of small, mid-tier and peer-sized players.

Asset and wealth management M&A trends

Megan Green, Partner, Asset and Wealth Management, PwC Bermuda, said: *"The AWM landscape continues to evolve. Asset and wealth management companies are leveraging transactions to react to slowing revenue growth and shrinking margins. They are seeking to drive growth through acquisitions, with a focus on core capabilities."*

We expect to see M&A in 2023 due to the following trends:

- Chase for scale through M&A and transformation: Margin pressures are forcing companies to scale inorganically or bolt on new capabilities to access new segments and markets.
- Growth of private markets: Demand for higher and non-equity-correlated returns will likely drive strong investor flows to private markets.
- Need for scale among large exchange-traded fund providers: An ongoing focus on fees, especially among retail consumers, will continue to drive the popularity of passive products and vehicles, leading to highly commoditised asset classes.
- Acquisition of newly required ESG core competences: We expect to see an uptick in M&A activity, particularly among US asset managers who may acquire ESG capabilities and assets from European asset managers for geographic diversification and to grow profitable assets under management.
- Incorporate fintech to diversify business offering or as a means of survival: It is likely that innovations brought by the fintech sector will continue to transform the sector.

The wealth management industry has strong local characteristics, business models, and brands. As a result, M&A in wealth management follows different trajectories in different countries, with the following trends likely in 2023:

- Enter new markets by accessing distribution capabilities of consolidated networks of relationship managers.
- Expand international footprint and create hubs in strategic markets, particularly in Europe, to increase high-net-worth individual (HNWI) clients.
- Strengthen local presence by acquiring specialised players in HNWI segments.



- Accelerate growth through acquisitions backed by a private equity firm to become a market leader.
- Entering strategic alliances with other market players, such as in other territories, to benefit from key partners and to complement one another as well as to gain greater market power

Banking and Capital Markets (BCM) M&A trends

The slowing of deals activity in this sector in 2022 will likely continue during the first several months of 2023.

Sean Kelly, Partner, Banking and Capital Markets, PwC Bermuda, said: “We see the banking M&A market being negatively affected by geopolitical issues, inflation, and concerns about global GDP growth. Meanwhile, technology capabilities remain central to M&A strategies as banks face internal challenges and shareholder pressures to optimise and digitalise their business models.”

In the near to midterm future, the banking market overall is expected to exhibit the following other key market trends:

- Digital banking adoption is growing. Governments, customers, and shareholders are pushing for greater adoption of digital financial services and broader modernisation in the industry.
- ESG is increasingly emerging as a key reputational issue.
- Various regulations that differ between territories and subsectors will affect deal activity in different ways. For example, in the United States, greater regulatory scrutiny and longer review processes are causing dealmakers to put more emphasis on deal preparation and developing a robust value creation plan. In the United Kingdom, the increased focus of the Financial Conduct Authority on potential competition and financial stability risks is likely to affect some M&A activity, particularly investments by technology companies in the FS space.

Given these trends, we observe the following M&A outlook:

- Pressures to digitally transform are spurring banks' attempts to modernise their operations by acquiring new digital capabilities and investing in cloud technologies. Furthermore, the growth of the digital economy fosters partnership opportunities with digital distribution channel partners.
- Consolidation of the highly fragmented industry continues, especially at the mid-tier regional bank level.
- Banks selectively dispose of non-core assets and retreat from certain businesses to reduce complexity and streamline their organisational structures, sharpen their operational focus, and free up capital for reinvestment in higher-growth areas.
- Potential for distressed M&A as banks divest NPLs to strengthen balance sheets and improve capital ratios.

-ENDS-

Notes

PwC's Global M&A Industry Trends Outlook is a semi-annual analysis of global deals activity across six industries – consumer markets (CM), energy, utilities and resources (EU&R), financial services (FS), health industries (HI), industrial manufacturing and automotive (IM&A), and technology, media and telecommunications (TMT).

About the data: Commentary on M&A trends is based on data provided by industry-recognised sources. Specifically, values and volumes referenced in this publication are based on officially announced transactions, excluding rumoured and withdrawn transactions, as provided by Refinitiv as of 31 December 2022 and as accessed on 2 January 2023. This has been supplemented by additional information from Dealogic, Prequin, S&P Capital IQ and PwC's independent research and analysis. The publication includes data derived from data provided under license by Dealogic. Dealogic retains and reserves all rights in such



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