



# Quiet consolidation

M&A trends in financial services

Q3'23

[kpmg.com](https://www.kpmg.com)

Introduction  
p.2

---

By the numbers  
p.4

---

Deep dive  
p.7

---

Outlook  
p.8

---

## Introduction

# A quiet quarter

Mergers and acquisitions (M&A) activity among U.S. financial services (FS) companies fell sharply in Q3'23 compared to the second quarter and on a year-to-date basis. Deal volume and value dropped 15.8 percent (to 1,078 deals) and 40.5 percent (to \$45.3 billion), respectively, versus Q2. The corresponding year-to-date declines were 36.8 percent and 58.2 percent.

The results of Q3 followed a small uptick in volume and value during Q2, dashing hopes that activity may have approached or reached a bottom.

The usual suspects. The main influences on sentiment remained the macroeconomic forces that have driven financial and deal markets since 2022, with a dash of U.S. political intrigue. Dealmakers focused on interest rates and inflation and their implications for economic growth.

The Federal Reserve raised its benchmark federal funds rate by 0.25 percent in July, to a range of 5.25–5.50 percent—a bare-bones hike that left investors wondering whether there was more to come (and how much). Furthermore, long-term interest rates (in the form of the 10-year U.S. Treasury note) have significantly risen, from 3.8 percent in mid-July to ~4.8 percent at the beginning of October. Annualized headline inflation rose in July and August for the first time since June 2022, prompting jitters that the Fed would have to hike more aggressively. However, long-term interest rates have not deterred the demand for private credit which has become a substitute for >\$10 billion in bank loans so far in 2023.

Congress added some spice to the mix in September, as a small faction in the House of Representatives threatened to shut down the government due to funding disagreements. Fortunately, Congress avoided the shutdown at the last minute, but even the hint of a shutdown was enough to dampen dealmaker sentiment.

Better days ahead? It would be easy to go with the flow of pessimism that pervades the M&A worldview these days.

We agree with the consensus view that interest rates will remain high at least through mid-2024—which should discourage transactions by keeping borrowing and operating costs at lofty levels.

But there are several factors that suggest an upturn may be taking shape. The first is anecdotal: Our client conversations indicate that companies are more actively considering acquisitions and adding to their dealmaking capabilities. Many of our clients have completed thematic analysis of a variety of financial services subsectors to proactively plan for deals in early 2024.

Another factor is the ongoing need for consolidation across the key FS subsectors of banking, capital markets, and insurance. While market conditions have kept dealmakers on the sidelines, competitive pressures to bulk up or slim down are a constant and show no signs of abatement.

Finally, we believe that the economy is likely headed for a soft landing rather than a recession, which traditionally translates into lower borrowing costs. Activity should start to revive as this outlook becomes the new consensus.



**Jonathan Froelich**

*Partner*

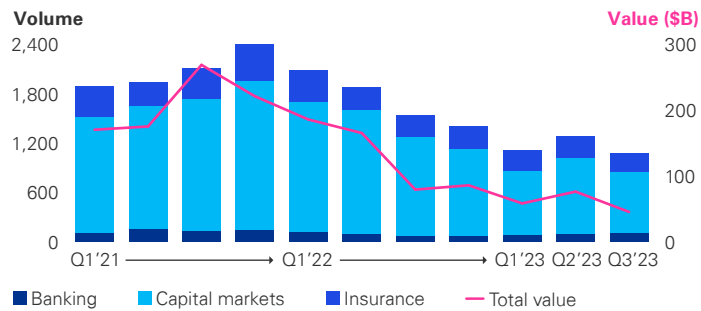
*Deal Advisory & Strategy*

*FS Leader*

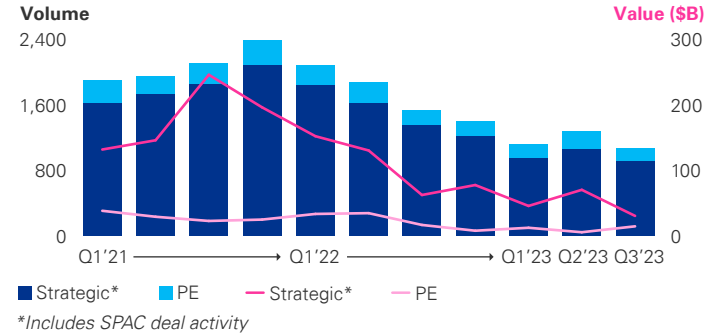
## Q3'23 highlights

<b>1,078</b>	<b>▼ -16%</b>	<b>\$45.3</b>	<b>▼ -41%</b>
<b>deals</b>	<b>decrease QoQ</b>	<b>billion deal value</b>	<b>decrease QoQ</b>

## FS deal activity by sector



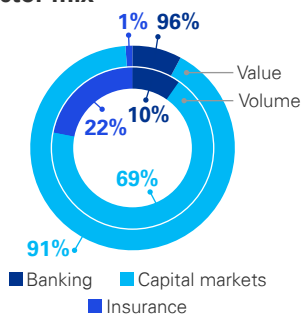
## FS deal activity by type



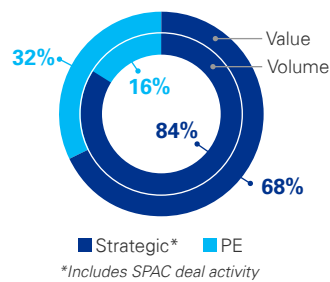
## Q3'23 deal mix

Outer ring represents value, inner ring represents volume

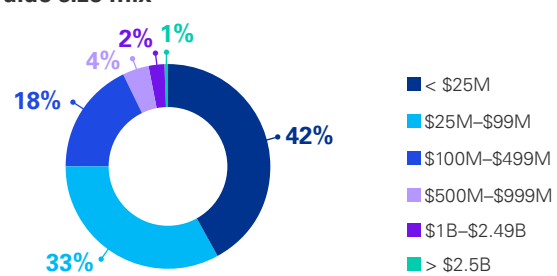
### Sector mix



### PE/Strategic mix



### Value size mix



## Top strategic deals

Acquirer	Target	Value (\$ billions)
Public Storage	Simply Storage Management, LLC	\$2.2
Kimco Realty Corporation	RPT Realty	\$2.0
CorpAcq Holdings Limited	Churchill Capital Corp VII	\$1.6
PacWest Bancorp	Banc of California, Inc.	\$1.1
Bridgepoint Group plc	Energy Capital Partners, LLC	\$1.1

## Top PE deals

Acquirer	Target	Value (\$ billions)
GTCR	Worldpay	\$11.7
ION Group	Prelios	\$1.5
777 Partners	Everton Football Club	\$0.7
Searchlight Capital Partners	Gresham House	\$0.6

About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The Q3'23 values and volumes data cited are for U.S. deals announced between 7/1/2023 and 9/30/2023. 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 changes in deal outcomes.



## By the numbers



Banking

# Consolidation continues

Banking was the only one of the key FS subsectors whose M&A activity increased in Q3'23 versus Q2. Deal value jumped 81.8 percent (to \$3.6 billion from \$2.0 billion), primarily due to Banc of California's \$1.1 billion acquisition of PacWest Bancorp. Deal volume rose 14.0 percent (to 106 from 93). Year-to-date comparisons were mixed, as value fell 15.9 percent (to \$21.1 billion from \$25.1 billion) and volume rose 4.4 percent (to 282 from 270) versus the same period in 2022.

The quarter's top five banking deals featured regional banks and fintechs, and all were strategic in nature, focusing on ongoing industry consolidation:

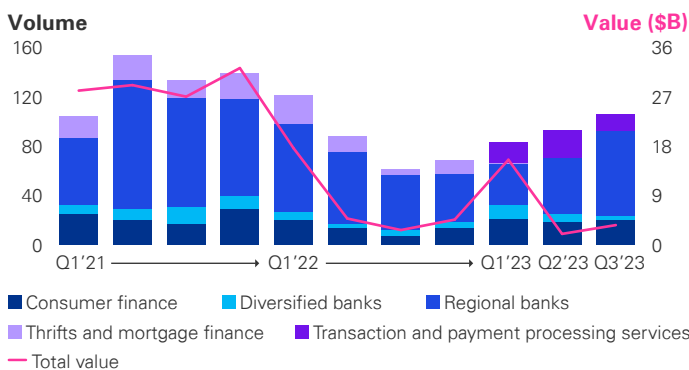
- In the largest deal, Banc of California seized an unexpected opportunity to buy a competitor. PacWest's capital base had deteriorated along with those of similarly troubled Silicon Valley Bank and First Republic earlier in the year, enabling Banc of California to purchase the remaining PacWest assets at a bargain-basement price.
- Boston-based Eastern Bankshares acquired local competitor Cambridge Bancorp for \$528.0 million, reinforcing Eastern's position as the largest community bank in Massachusetts and New Hampshire by deposits.
- Evertec, a leading full-service transaction processing business in Puerto Rico, the Caribbean, and Latin America, paid \$478.8 million for Sinqia, a technology provider technology for financial institutions operating in Brazil.
- Virginia-based Atlantic Union Bankshares expanded into North Carolina by acquiring American National Bank & Trust for \$416.8 million.
- Burke and Herbert Financial Services's \$371.5 million purchase of Summit Financial Group added branches in West Virginia, Kentucky, Maryland and Delaware to Burke & Herbert's base in the Washington, DC metropolitan area.

### Q3'23 highlights

**106** ▲ **14%**  
deals increase QoQ

**\$3.6** ▲ **82%**  
billion deal value increase QoQ

### Banking deal activity by subsector



### Strategic and PE banking deals



### Top banking deals

Acquirer	Target	Rationale	Value (\$ billions)
PacWest Bancorp	Banc of California, Inc.	Capital on market opportunities in California	\$1.1
Eastern Bankshares, Inc.	Cambridge Bancorp	Fuel market-growth strategy in Boston	\$0.5
EVERTEC, Inc.	Sinqia S.A.	To become leading fintech company in LATAM	\$0.5
Atlantic Union Bankshares Corporation	American National Bankshares Inc.	Expand community banking model across Virginia, West Virginia, Maryland, Delaware, and Kentucky	\$0.4
Burke & Herbert Financial Services Corp.	Summit Financial Group, Inc.	Expand the community banking model	\$0.4

About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The Q3'23 values and volumes data cited are for U.S. deals announced between 7/1/2023 and 9/30/2023. 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 changes in deal outcomes.

## By the numbers



Capital markets

## Down, but still big

M&A transactions among capital markets companies in fell in Q3'23 following a weak second quarter. Deal value and volume dropped 38.5 percent (to \$41.1 billion from \$66.9 billion) and 19.7 percent (to 739 from 920), respectively, versus Q2.

Activity in the year-to-date period was down, as well. Compared to 2022, deal value declined 60.3 percent to \$150.1 billion from \$377.8 billion, and volume fell 43.5 percent to 2,435 deals from 4,308.

All of the quarter's five biggest FS deals were in capital markets. The biggest, by far, was private equity firm GTCR's purchase of a 55 percent stake in payments processor Worldpay for \$11.7 billion, which placed an \$18.5 billion valuation on the entire company. Worldpay's seller was Fidelity National Information Services, which had acquired the company in 2019 for \$43 billion. The deal was not only the highest-value leveraged buyout thus far in 2023, but also GTCR's largest-ever acquisition.

Two of the four other biggest deals in the quarter involved real estate investment trusts consolidating competitors: Public Storage's purchase of Simply Self Storage for \$2.2 billion, and Kimco Realty's \$2.0 billion acquisition of RPT Realty.

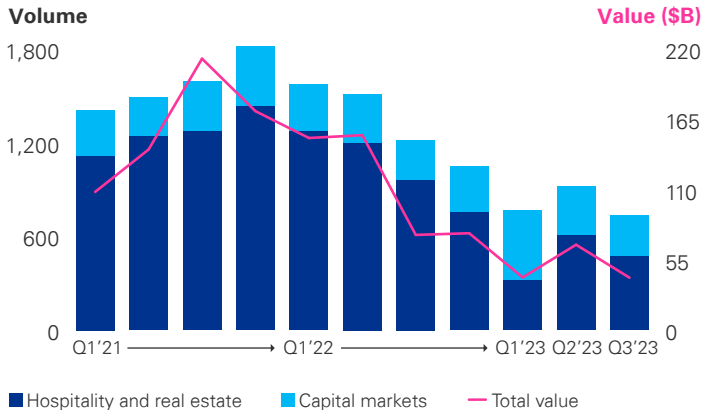
The other two were a \$1.6 billion SPAC transaction and the \$1.5 billion sale of Italian alternative asset manager Prelio to ION, which focuses on software and data to digitize and automate mission-critical workflows.

### Q3'23 highlights

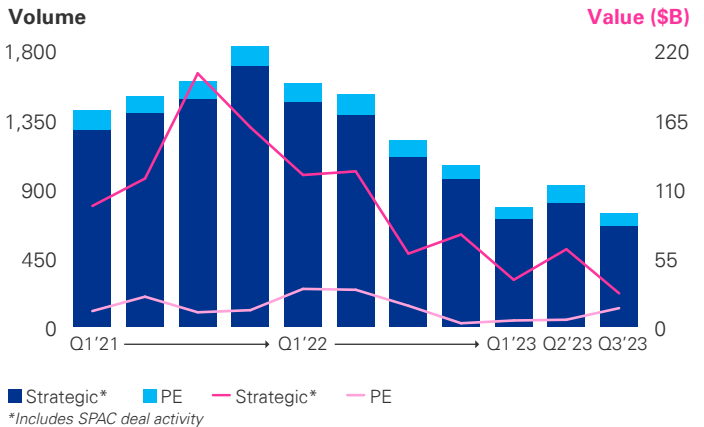
**739** ▼ **-20%**  
deals decrease QoQ

**\$41.1** ▼ **-39%**  
billion deal value decrease QoQ

### Capital markets deal activity by subsector



### Strategic and PE capital markets deals



### Top capital markets deals

Acquirer	Target	Rationale	Value (\$ billions)
GTCR	Worldpay	Accelerated growth of investment in product development and technology	\$11.7
Public Storage	Simply Storage Management, LLC	Boost presence in fast growing markets and bolster core strengths	\$2.2
Kimco Realty Corporation	RPT Realty	Cost synergy opportunity and increase portfolio occupancy	\$2.0
CorpAcq Holdings Limited	Churchill Capital Corp VII	Optimize its balance sheet and fund accelerated growth	\$1.6
ION Group	Prelios	Incorporate real estate fund management business	\$1.5

About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The Q3'23 values and volumes data cited are for U.S. deals announced between 7/1/2023 and 9/30/2023. 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 changes in deal outcomes.



## By the numbers



### Insurance Quiet time

Insurance dealmaking remained quiet in Q3'23. Deal value plummeted 92.8 percent (to \$0.5 billion from \$7.2 billion) versus Q2—the steepest such decline among financial subsectors, by far—while volume fell a more modest 12.7 percent to 233 deals from 267.

Activity also dropped on a year-to-date basis. Deal value and volume sank 69.3 percent (to \$8.4 billion from \$27.4 billion) and 17.8 percent (to 233 deals from 267), respectively, compared to Q3'22.

The quarter's biggest deal was the \$510 million purchase of insurance carrier Eastern Insurance Group by the brokerage giant Arthur J. Gallagher & Co. The acquisition of Eastern was the latest in an ongoing M&A wave among insurance brokers, particularly Gallagher. Demand for distribution businesses has been high for some time—brokerages want to bulk up to be

more competitive, and private equity players seek to build their own large-scale distribution capabilities via acquisitions.

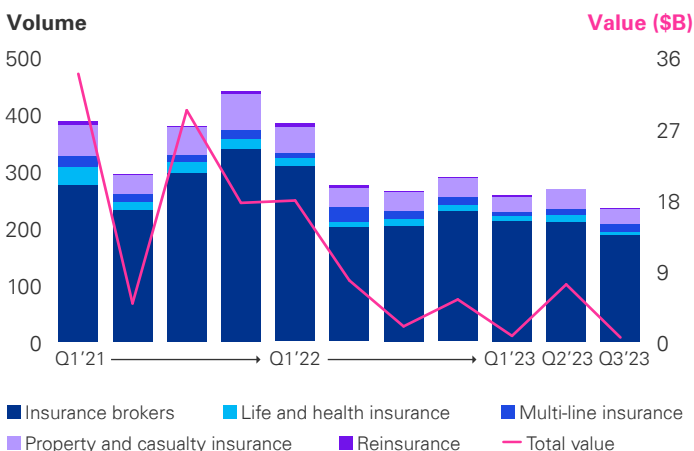
The primary drivers for brokerage consolidation are still in place: sticky rate increases, which make revenues stronger and more predictable; the potential for economies of scale via aggregation; the need for digital transformation; and the recognition that brokers face inevitable consolidation as insurance carriers themselves combine.

### Q3'23 highlights

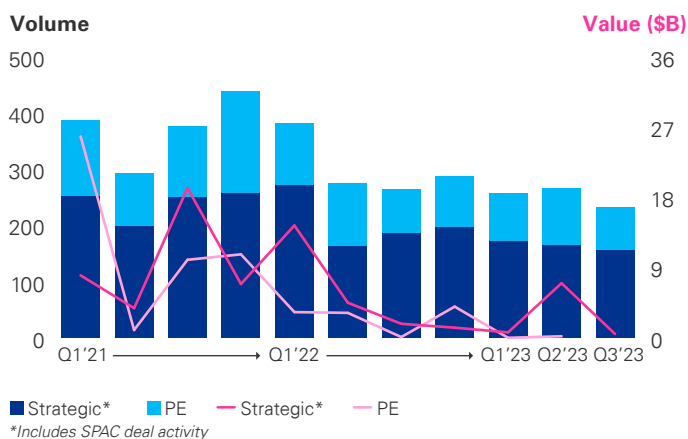
**233** deals  
▼ **-13%** decrease QoQ

**\$0.5** billion deal value  
▼ **-93%** decrease QoQ

### Insurance deal activity by subsector



### Strategic and PE insurance deals



### Top insurance deals

Acquirer	Target	Rationale	Value (\$ billions)
Arthur J. Gallagher Risk Management Services, Inc.	Eastern Insurance Group LLC	Niche expertise in retail, construction, real estate, hospitality	\$0.5
MyPlanAdvocate Insurance Solutions, Inc.	Eversurance, LLC	Expand into the under-65 years health insurance market	\$0.013

About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The Q3'23 values and volumes data cited are for U.S. deals announced between 7/1/2023 and 9/30/2023. 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 changes in deal outcomes.



## The big opportunity in B2B payments

Who needs Goliath when there are so many more Davids? That's the question that providers of business-to-business (B2B) payments services should be asking—and shouting at—themselves.

The answer lies in discoveries KPMG has recently made across multiple strategy studies of the 33.2 million small- and medium-size U.S. businesses<sup>1</sup> (SMBs), which comprise 99.9 percent of all U.S. businesses. These studies revealed that many SMBs rely on embedded finance<sup>2</sup> solutions in existing software rather than implementing new solutions, and that the adoption of embedded finance for B2B payments significantly varies by each company's number of employees.

Medium-size companies with 100–500 employees are the largest users (approximately 40 percent) of embedded finance to access B2B payment tools through non-financial software platforms. By comparison, about 30 percent of micro-size companies (i.e., those with 10 or fewer employees) use an embedded finance channel for their B2B payments. Around 60 percent of micro-size companies use a bank or manual channel such as branch banking, physical checks, vendor websites, or proprietary software. The corresponding number for medium-size companies is approximately 40 percent.

The big reveal: There is a large universe—70 percent—of micro companies that have yet to adopt embedded finance for B2B payments services. Payments vendors can and should seize this major opportunity to grow their market share.

### Channel partnerships

To address SMBs' preference for existing software, payments vendors are developing partnerships with the workflow channels that SMB customers are using. These channels notably include accounts payable/ accounts receivable automation, payment processing, spend management, and supply chain finance. Many finance leaders are accessing B2B payment workflow tools through embedded solutions in non-financial software platforms such as:

- Accounting/Enterprise resource planning (ERP) software
- Point-of-sale (POS) solutions
- Industry-specific vertical software as a service (SaaS)

Payment vendors are building out their networks of partnerships, application programming interfaces, and other means to help embed their tools in popular channels. Our analysis of B2B payments vendors that serve SMBs concluded that the most popular channel is accounting/ERP software, followed by industry-specific vertical SaaS and POS. The analysis additionally concluded that more than half of these vendors—58 percent—have formal partnership programs that include self-service developer tools to help software channel providers efficiently integrate embedded finance solutions.

### Find out more

If you would like to learn more about how KPMG thinks about B2B payments, please let us know and we'll send you our latest paper on the topic, "Understanding the next wave of opportunity in B2B payments." This new paper explores how working capital optimization is an ongoing top-of-mind issue for CEOs, CFOs, treasurers, and finance executives, and it examines how they use data to manage the complex ecosystem of B2B payments.



<sup>1</sup> "The State of Small Business Now," U.S. Chamber of Commerce, April 10, 2023

<sup>2</sup> KPMG defines embedded finance as non-financial players who integrate financial offerings within their own products, solutions and platforms at their customer's point of need.

## Outlook

# Conditions may be stabilizing

It's hard to be optimistic about the near-term prospects for financial services M&A. But unlike the past year-plus, we see the picture as mixed—which suggests that conditions may be in the process of at least stabilizing.

KPMG Economics forecasts that U.S. economic growth will decelerate in Q4'23 into the first half of 2024. The primary culprit should be personal spending, which likely will slow down as consumers feel the effects of several macroeconomic headwinds. These include high interest rates working their way through the economy, tighter borrowing standards, a drawdown of excess savings accumulated during the pandemic, the end of student loan forbearance, strikes across multiple industries, and the possibility of a government shutdown in December.

But there are tailwinds as well: growth in inflation-adjusted wages, an active labor market, and increased options for paying off student loans. KPMG Economics believes the Federal Reserve won't hike rates again in the current cycle and may actually start to cut them around the middle of 2024.

There also is encouraging news from the capital markets. After many initial public offerings (IPOs) were canceled or postponed in 2022 and 2023, four IPOs for large companies—chip designer Arm, online grocery shopper Instacart, enterprise software company Klaviyo and specialty drugmaker Neumora Therapeutics—came to market in September. The significance of these offerings is that they happened at all. While we don't expect them to open the floodgates for a new IPO wave, we see them as a sign that resistance to dealmaking may be weakening.

**Banking.** In addition to high interest rates, falling loan demand and tighter lending standards, banks are facing an increased level of regulatory oversight that has reduced the appetite for M&A. That said, more banks are telling us that they're considering acquisitions and staffing up their deal teams, and the need for industry consolidation remains. We expect more deals involving fintechs.

**Capital markets.** There is significant pressure on asset managers to grow either organically or via M&A. Many seek to diversify their footprint into new asset classes (e.g., traditional managers adding alternatives specialists) or distribution channels (e.g., institutional managers expanding into the retail market).

In addition, some insurers are interested in extending their in-house asset management capabilities beyond their general accounts to manage for external clients.

**Insurance.** Industry players will need to find new ways to become more agile and more relevant in the eyes of their customers and to differentiate themselves from their competition. Since few companies will be able to do this independently, we expect to see strategic M&A deals, continued consolidation in certain sectors, and unique strategic alliances and partnerships forged within the insurance ecosystem.

## Key considerations as we look ahead

FS deal makers 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.





## How KPMG can help

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.

# 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)

**Robert Ruark**

*Principal*

*Deal Advisory & Strategy*

*Banking Leader*

704-371-5271

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

**Vineet Wilson**

*Principal*

*Deal Advisory & Strategy*

*Capital Markets Leader*

312-665-1542

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

**With special thanks to:** Rohinish Chatrath, Garvita Garg, Michael Gelfand, Geoff Lewis, Mary Leonard, Erik Muhlsten, Tara Nelson, Kathleen Nichols, Aditya Putatunda, Rishabh Sengupta, Ben Shoemsmith

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. DASD-2023-13782