KPMG

Onward and upward

M&A trends in financial services

Q4’24

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A deceptively strong year

It turns out that 2024 was a deceptively strong year for merger and acquisition (M&A) activity among financial services (FS) companies. Even as dealmakers focused on concerns about inflation, interest rates, political partisanship, overseas conflicts, and the US presidential election, they nonetheless were considerably busier than in 2023.

Total deal volume for the year rose 9.2 percent to 5,329 and value jumped 39.3 percent to $371.0 billion. Volume and value comparisons were unanimously positive for the main financial subsectors of banking, capital markets, and insurance.

Big deals. Of the year's eight largest transactions by value, five were in capital markets, two were in insurance, and one was in banking. The biggest, by far, was Capital One's $35.3 billion acquisition of Discover. The deal was announced in February 2024 but hasn't yet been approved by banking regulators. Asset management giant BlackRock expanded its presence in alternative investments by acquiring Global Infrastructure Partners and HPS Investment Partners for $12.5 billion and $12 billion, respectively.

Two key uncertainties eliminated. M&A sentiment suffered for much of the year from two major doubts—both resolved in the second half. First, the Federal Reserve (the Fed) slashed its benchmark Fed funds rate by one percentage point (to 4.25–4.50 percent) in September, November, and December, the first cuts since early 2020. Second, the question of who would become president was settled in November.

Optimism ahead... The long-term fundamental trends that would help to power any upturn in FS M&A—consolidation, focus on core business lines, need for growth, cost cutting—remain in place. Additional positives should come into play this year: lower rates, expected loosening of regulatory scrutiny, increasing use of artificial intelligence, extension of the income tax cuts enacted in 2017, and a general perception that the Trump administration will be receptive to M&A.

...yet risks remain. At the same time, significant risks persist, with inflation the most critical. Despite the Fed's efforts since 2022 to bring inflation down, it's still stubbornly high: The annualized consumer price index (CPI) rose in each of 2024's last three months. KPMG Economics forecasts that CPI will dip to 2.9 percent in 2025 from 3.0 percent in 2024, then climb to 3.3 percent in 2026.

Insurance upgrade. We expect each main financial subsector to maintain its upward M&A trajectory in 2025. Our optimism is strongest for insurance, whose prospects seemed muted after the third quarter. We've upgraded our outlook based on rising client interest and accelerating demand for acquisition readiness.

> "We expect financial services M&A to grow in 2025. An improvement in market sentiment should combine with long-term fundamental trends to drive activity higher."

Jonathan Froelich
Partner
Deal Advisory & Strategy
Financial Services Leader

The data

All numbers positive

Whichever way you slice the numbers for financial services M&A in 2024, they all were positive. Aggregate deal volume and value rose, whether broken down into strategic and private equity transactions or by geographic origin (i.e., domestic, inbound, and outbound). Each of the three main FS subsectors—banking, capital markets, and insurance—enjoyed higher volume and value as well.

> After two years of a quiet M&A market for financial services, 2024 showed growth. We expect this trend to continue in 2025 with lighter regulation.”

— Henry Lacey, Principal, Deal Advisory & Strategy, Banking & Capital Markets Leader

2024 highlights

5,329 deals

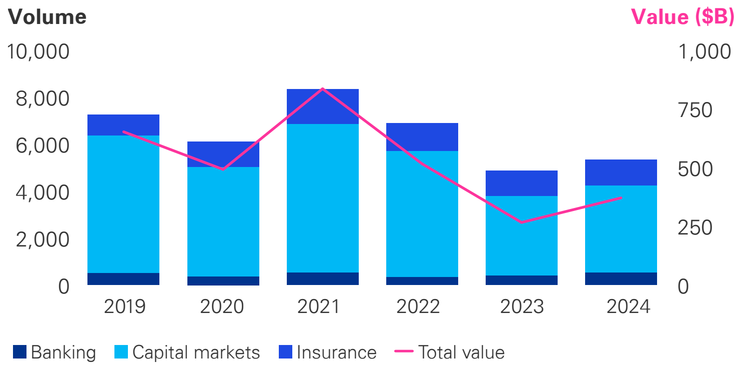
▲ **9.2%** increase YoY

$371 billion deal value

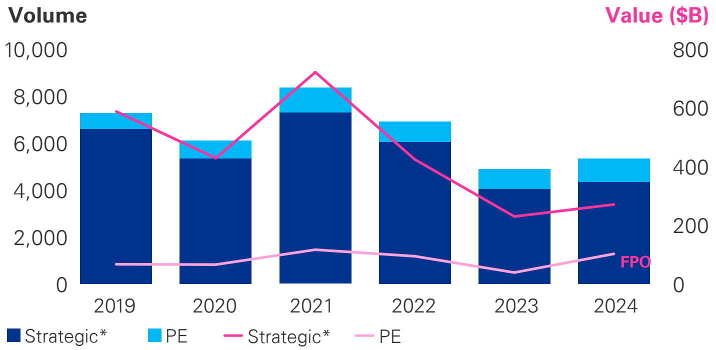
▲ **39.3%** increase YoY

The upturn was broad based and created momentum for further improvement in 2025.

FS deal activity by sector



FS deal activity by type

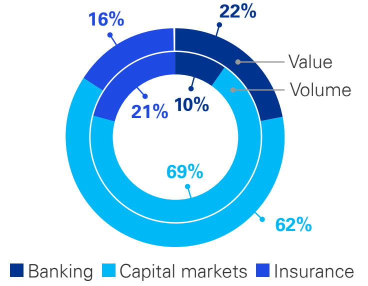


*Includes special-purpose acquisition company (SPAC) deal activity

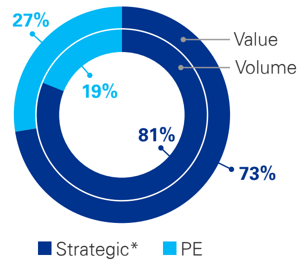
2024 deal mix

Outer ring represents value. Inner ring represents volume.

Sector mix

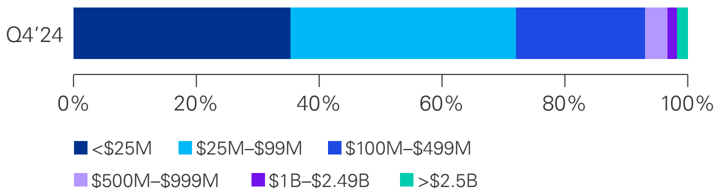


PE/strategic mix



*Includes SPAC deal activity

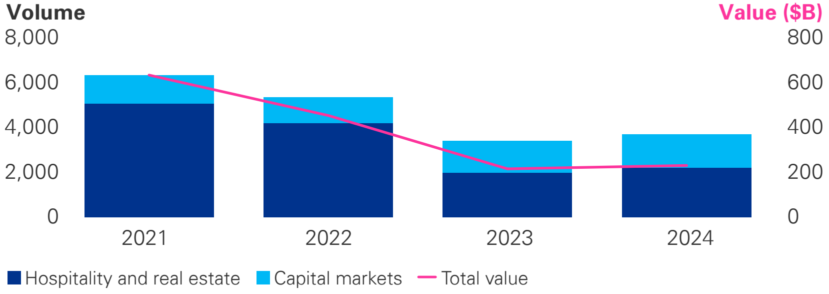
2024 deal size mix



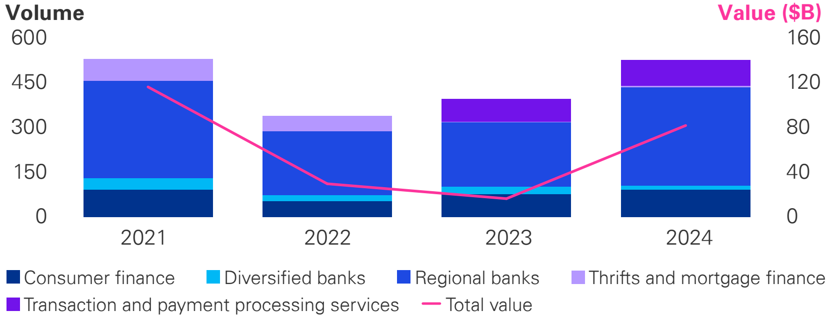
Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between January 1, 2024 and December 31, 2024. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any change.

Deal activity by subsector

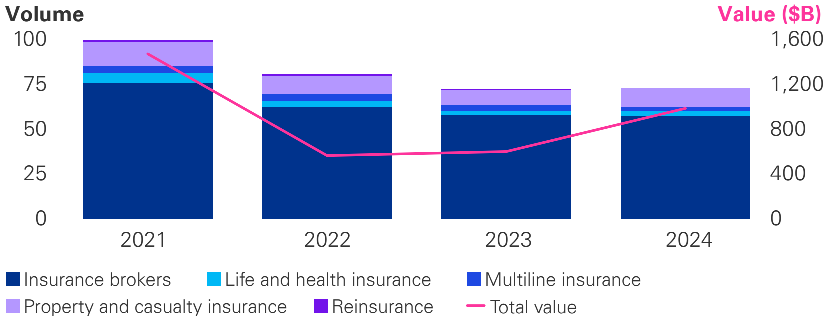
Capital markets



Banking



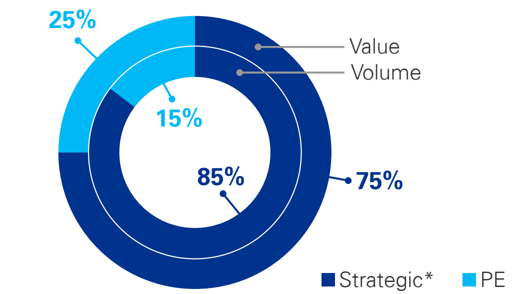
Insurance



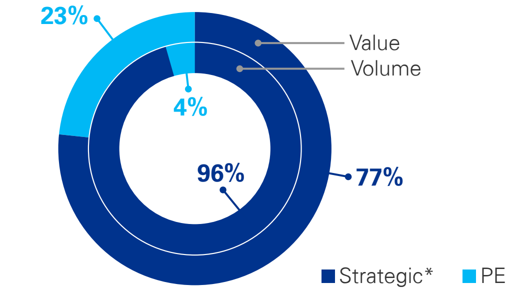
PE/strategic mix

Outer ring represents value. Inner ring represents volume.

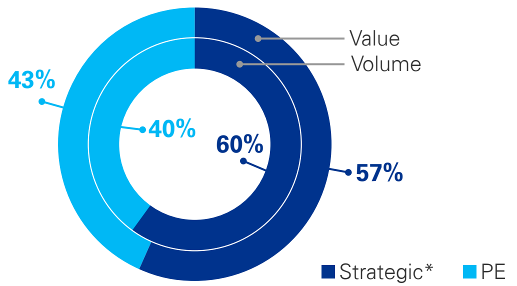
Capital markets



Banking



Insurance



*Includes SPAC deal activity

Top deals

	Value (billions)
Acquirer: **Capital One Financial Corporation** Target: **Discover Financial Services**	**$35.3**
Acquirer: **Clayton, Dubilier & Rice, Mubadala Investment Company, Stone Point Capital** Target: **Truist Insurance Holdings**	**$15.5**
Acquirer: **Arthur J. Gallagher & Co.** Target: **AssuredPartners, Inc.**	**$13.5**
Acquirer: **BlackRock, Inc.** Target: **Global Infrastructure Partners**	**$12.5**
Acquirer: **BlackRock, Inc.** Target: **HPS Investment Partners, LLC**	**$12**

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Deep dive

Regional banks must improve M&A readiness

> Many regional banks need to improve or revisit their M&A muscle memory to get back in the game and reap the most value from their transactions."
>
> — Jonathan Shiery, Principal, Financial Services Strategy, M&A and Transformation

The stage is set for rising M&A activity among regional banks in 2025. Defined as those with total assets between $15 billion and $100 billion, regionals appear poised to pursue M&A—whether as buyers or sellers.

Market conditions for banking M&A remain largely unchanged. Despite initial Fed rate cuts, inflation persists, and interest rates have actually risen due to various factors. Regulatory scrutiny of deals is still anticipated to loosen under the Trump administration, and competition continues to increase from both banks and nonbanks such as fintechs and payments providers. For many regional banks, 2025 could be a make-or-break year that determines if they stay independent. An important trend to watch is the deviation between the Fed policy rate and government bond yields, driven by reduced demand for bonds, higher anticipated prices, and the return of risk premiums.

Readiness gap. Our research and experience tell us that numerous regionals would like to make acquisitions this year. In our 2024 Banking Industry Survey, for example, 38 percent of respondent banks expected to pursue acquisitions of one or more other banks. Despite their eagerness, though, their dealmaking muscle memory is low and must get back into shape. In other words, their readiness needs a jump start.

An important aspect of today's M&A experience is that the requirements for readiness have changed. While banks still need to evaluate targets based on traditional criteria such as organizational culture, anti-money-laundering processes, regulatory compliance, business valuation, and products and services, there are now additional criteria to consider that involve greater risk. These new criteria prominently include data, third-party partnerships and vendors, IT systems and capabilities, AI, and customer experience. Assessing targets against these criteria is a big challenge for the largest banks, and even bigger for regionals that lack sufficient staffing and know-how.

Difference-making cooperation. KPMG banking professionals believe that one factor can make the difference between the success or failure of M&A transactions: the strength of the connection between a bank's corporate development group and its various due diligence teams. Corporate development's M&A duties include formulating a bank's growth strategy, target identification, and deal execution. Due diligence teams—covering commercial, credit, financial, integrity, legal, operations, regulatory, risk management, tax, and technology—must integrate with each other and communicate with corporate development to ensure the deal process aligns with the bank's strategic goals. Proper coordination enhances risk management and helps acquirers capture more deal value.

AI is a necessity. The relevance of AI to banking M&A isn't simply as a criterion for a target's attractiveness—acquirors need to use it in their own deal work to stay current with technology, and to remain competitive. Generative AI, in particular, has the ability to drive efficiencies and market advantages across the entire M&A lifecycle.

Outlook

Optimistic for 2025

We believe that financial services M&A activity will increase in the coming year. In our view, the upturn that started in 2024 should gather momentum and remain on track.

Many dealmakers feel that they've been given a green light to go ahead and actively look to buy or sell. The Fed's recent interest-rate cuts are a big driver of improving sentiment. Another is the fact that Republicans control the executive and legislative branches of government—meaning that market participants can look to Washington, DC for policies to keep taxes low and reduce regulatory requirements.

There also are reasons for caution, though, starting with inflation. We mentioned earlier that the KPMG Economics team expects inflation to stay near its current, above-target level at least through 2026. The team additionally forecasts that two Trump priorities (i.e., trade tariffs and the deportation of illegal immigrants) could raise inflation and reduce GDP growth. If correct, this could have negative implications for the broad US economy and, as a result, M&A activity in general.

Our overall optimism applies to each of the three main FS subsectors. While we're most enthusiastic about insurance, we see gains ahead for banking and capital markets, as well.

Key considerations as we look ahead

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

1. **Strategy matters.** Boards and CEOs should define their M&A strategy now. Establishing this early provides a head start as the market accelerates.
2. **Start planning now.** If you haven't started prepping to buy or sell, it's time to act. Companies not considering transactions or inadequately staffing their deal teams will face a competitive disadvantage.
3. **Do your diligence.** Diligence is crucial in the coming year, whether activity heats up or remains quiet. Dealmakers must scrutinize their processes, integration approach, and transaction performance more closely.
4. **Integrate and coordinate.** Diligence teams must integrate and coordinate with corporate development to align the deal process with the board's strategy and the acquisition's deal thesis.

Strategic acquisitions surge

Banking

Prospects for banking M&A are improving, both for large and smaller/regional banks. Lower interest rates and looser regulation should be especially encouraging for all of them.

We expect large players to make business-adjacent acquisitions, with payments providers as particularly attractive targets.

Smaller/regional banks, as we described earlier, should be active players as they decide whether to be buyers or sellers.

Capital markets

The same falling rates and favorable regulatory environment that benefit banks will also positively affect capital markets M&A. Additionally, several other trends are promising: an increase in targets available from private equity firms, ongoing consolidation among asset managers (who are also expected to continue acquiring alternative investment firms), continued roll-ups of wealth managers, and more private markets transactions.

Insurance

We're especially optimistic about M&A across insurance lines. The pace of activity should accelerate as more companies look for growth via acquisitions, while others choose to divest noncore businesses.

Growth and scale are top priorities for carriers and brokers alike. Given the diminishing impact of organic growth, firms in both areas will likely keep looking to gain market share by purchasing competitors.

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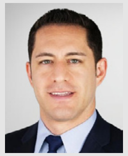

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How KPMG can help

KPMG LLP helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value, leveraging its depth in the FS industry, providing data-supported and tools-led insights, and delivering full M&A capabilities across the deal lifecycle.

With an FS specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

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