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Measured momentum

M&A trends in financial services

Q3'24

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Introduction

An up year so far

Mergers and acquisition (M&A) activity among financial services (FS) companies remained mixed in Q3’24. Total deal volume rose 5.2 percent from Q2 to 1,343, while value fell 0.3 percent to $89.6 billion. Viewed on a year-over-year basis, however, results were favorable: Volume was up 5 percent and value jumped 55.7 percent compared to the first three quarters of 2023.

Among the sub-sectors, banking experienced a decline in deal value, whereas capital markets and insurance saw an increase. However, only the capital markets sector experienced a rise in deal volume in Q3’24. Year to date, by contrast, banking and insurance registered solid volume gains and their respective deal values more than doubled.

Interest rates fell. The Federal Reserve slashed its benchmark fed funds rate by one half of a percentage point (to 4.75 percent–5.0 percent) in September, its first cut since early 2020. A quarter-point cut followed in November and December. High rates have squashed M&A activity for nearly three years, so expectations for dealmakers to start revving their engines were warranted. However, market participants appear to want more proof that the Fed will continue to ease and that the economy will keep humming.

Bank merger policy tightened. In September, the two US regulators that review bank mergers—the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency—announced the first update of their merger policy since 2008. The gist of the update was that bank mergers would be subject to stricter rules and greater scrutiny. Implications for M&A more generally could be unfavorable.

Election uncertainty was high. Anxiety about the outcome of the US general election continued during the quarter, prompting dealmakers to stay on the sidelines even though interest rates fell. That uncertainty has now dissipated. President-elect Trump’s perceived mandate may prompt dealmakers to reenter the fray, reassured by a more hospitable, if unpredictable, policy environment. While the major parties hold significantly different views on policies affecting M&A—including economic, fiscal, monetary, trade, regulatory, energy, environmental, and international matters—the election results offer clarity, potentially invigorating activity as companies strategically align their with the regulatory and economic frameworks they anticipate.

We’re not there yet. The long-term fundamental trends that would help to power any upturn in FS M&A (i.e., consolidation, the quest for growth, strategic focus on core businesses) remain in place. What’s more, interest rates have finally turned downward, which will lower the cost of deal financing and help the economy maintain momentum. Yet most companies are taking a wait-and-see stance. The consensus view is that rates will continue to fall, meaning that potential buyers and sellers may delay pulling the trigger until rates drop even further. The volume and pace of deal making are unlikely to rise much in the near term accordingly.

> “We’re entering the new year with confirmed election results and lower interest rates, which could invigorate M&A markets as companies set their strategic direction and seek to propel growth.

Nadia Orawski
Principal
Financial Services Strategy Practice Leader

The data

Another mixed quarter

The big picture for financial services M&A was mixed in Q3'24, as it was in Q2: Deal volume rose and deal value fell in both quarters. Four of the eight biggest transactions in Q3 were in insurance. Marsh & McLennan acquired brokerage McGriff Insurance Services for $7.8 billion, a private equity consortium paid $5.1 billion for specialty insurer Enstar Group, leading workplace benefits provider The Standard bought Allstate's Voluntary Benefits Business for approximately $2 billion, and Sentry Insurance acquired American Family's The General brand for $1.7 billion. Of the remaining biggest deals, three involved capital markets and one—the quarter's biggest, a private equity consortium's $10.8 billion purchase of Discover's US student loan portfolio—was in banking.

Q3'24 highlights

1,343 deals

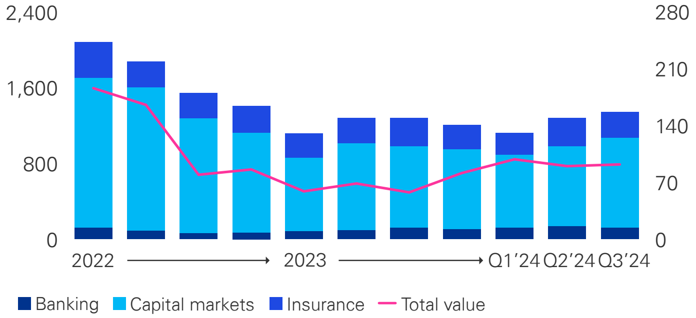
▲ **5.2%** increase QoQ

$89.6 billion deal value

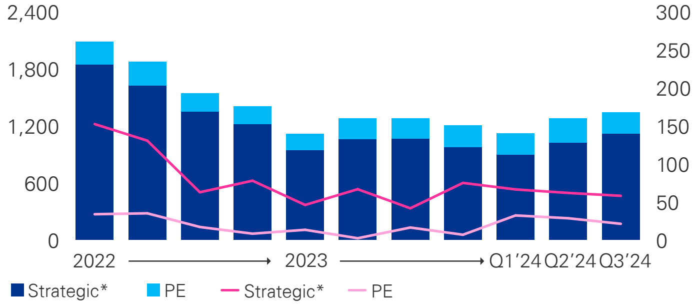
▼ **0.3%** decrease QoQ

Most US dealmakers remained on the sidelines in Q3 as they waited to see the results of the November general elections.

FS deal activity by sector



FS deal activity by type

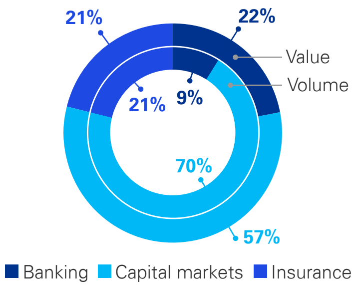


*Includes special-purpose acquisition company (SPAC) deal activity

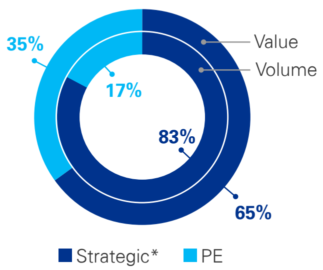
Q3'24 deal mix

Outer ring represents value. Inner ring represents volume.

Sector mix

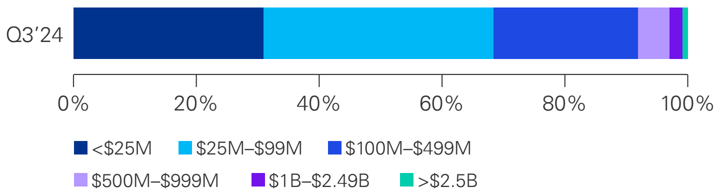


PE/strategic mix



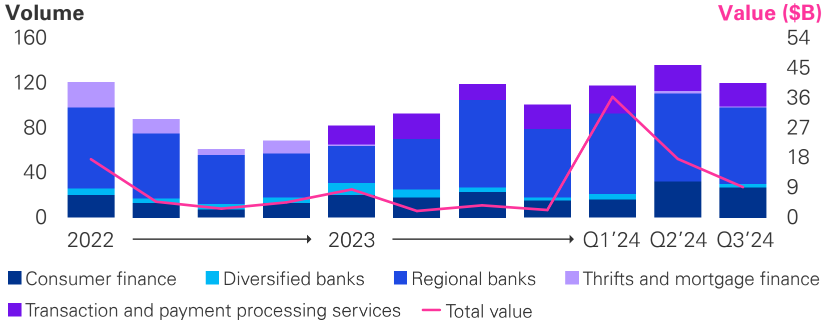
*Includes SPAC deal activity

Q3'24 deal size mix

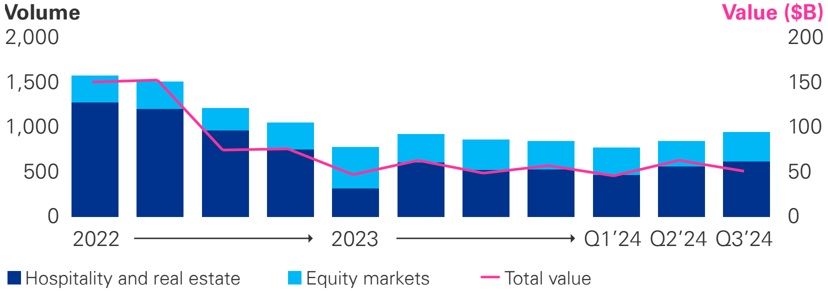


Deal activity by subsector

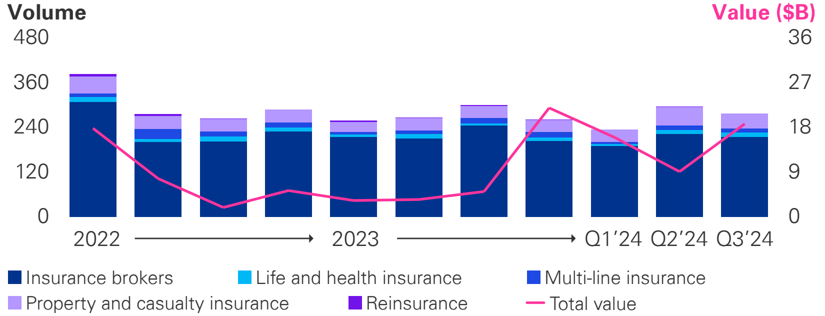
Banking



Capital markets



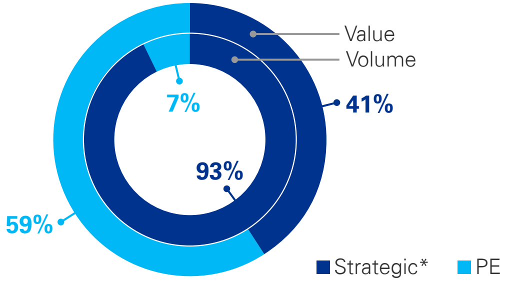
Insurance



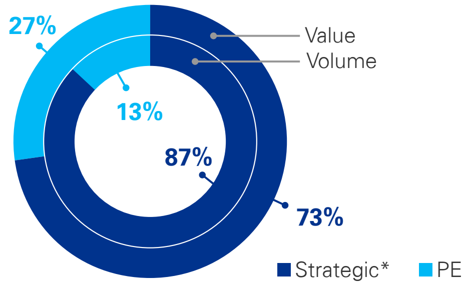
PE/strategic mix

Outer ring represents value. Inner ring represents volume.

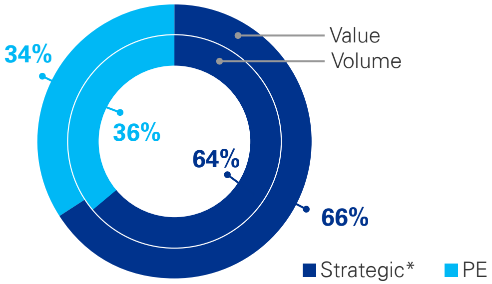
Banking



Capital markets



Insurance



*Includes SPAC deal activity

Top deals

Acquirer / Target	Value (billions)
Acquirer **Kohlberg Kravis Roberts, The Carlyle Group** Target **Discover (US Student Loan Portfolio)**	**$10.8**
Acquirer **Marsh & McLennan Agency LLC** Target **McGriff Insurance Services, LLC**	**$7.8**
Acquirer **J.C. Flowers & Co., Liberty Strategic Capital, Sixth Street Partners** Target **Enstar Group**	**$5.1**
Acquirer **Standard General L.P.** Target **Bally's Corporation**	**$4.6**
Acquirer **Mastercard Incorporated** Target **Recorded Future, Inc.**	**$2.7**

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between July 1, 2024 and September 30, 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.

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Deep dive

Latest regs positive for banking M&A

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Most banking industry observers—ourselves included—expected the US Basel III Endgame (B3E) regulatory regime to be final by now. It isn't. In September, Fed Vice Chair Michael S. Barr came up with a "re-proposal" that significantly differed from the previous version. Barr said that he'd recommend the re-proposal to the Fed.

(A quick refresher: B3E is a highly complex update to existing banking regulations and has been in the works since 2009. It aims to increase banks' capital requirements in order to reduce risks to the overall banking system. Its sponsors are the top three federal banking regulators: the Federal Deposit Insurance Corporation, the Fed, and Office of the Comptroller of the Currency.)

What has changed? Under the previous proposal, B3E would raise banks' risk-weighted assets by 20 percent, or nearly $3 billion, and require banks to raise their Tier 1 equity capital by 20 percent as well. B3E also would require compliance by banks with at least $100 billion in assets; only banks with at least $700 billion in assets—the biggest US banks, known as global systemically important banks (G-SIBs)—would have to meet existing capital requirements.

The re-proposed B3E materially eases banks' capital burdens in two ways. First, it would require G-SIBs to raise their Tier 1 equity capital by 9 percent instead of 20 percent. Second, it would boost the threshold for compliance to banks with at least $250 billion in assets, compared to those whose assets are at least $100 billion. The total amount of capital that banks would have to add would decline as well—we calculate that the re-proposal would require $70 billion–$90 billion in additional capital, a big drop from the $230 billion–$250 billion under the previous version.

Bad news and good news. The bad news about the re-proposal is that it's likely to undergo substantial revision in the upcoming regulatory review and public comment periods—meaning that it will be harder for banks to fully prepare for it. Additionally, the next round's timeline is unclear and could end up being much longer than currently expected.

The good news is that, although we believe the next version will increase the amount of required capital, the amount should be less than the original $230 billion–$250 billion. Banks could use the capital that they'd otherwise have to hold on their balance sheets for other purposes. These typically would include returning capital to shareholders in the form of dividends or buybacks; growing their balance sheets by issuing more loans and adding riskier assets; or pursuing inorganic growth via M&A or new, or alternative investments.

A boon for M&A. In our view, the re-proposed B3E along with other proposed regulatory shifts will open the aperture for banks to pursue M&A, whether as buyers or sellers. We anticipate consolidation among smaller banks (those with less than $100 billion in assets) as well as some movement among regional and super-regional banks with assets of $100 billion to $700 billion. However, this increased M&A activity may also heighten scrutiny around anti-trust issues, as regulators will be keen to ensure that consolidation does not lead to reduced competition and consumer harm. B3E will only exacerbate the competitive pressures they face regarding costs and scale.

Outlook

A time for cautious optimism

Following the Republican victory in November and expectations for further interest-rate cuts, the Financial Services M&A landscape appears promising as we reach the end of 2024. The Fed cut interest rates by 0.25 percentage points in December and announced plans for two more potential rate cuts for 2025. We remain hopeful that the current economic outlook, falling rates, and a new administration will help to spur an increase in M&A activity.

Lower rates mean lower deal financing costs—which should be especially positive for PE transactions. Private equity firms have faced a major headwind in the form of higher rates since 2022 and are eager both to put their considerable dry powder to work and exit from their longer-held portfolio companies. The uptick in initial public offerings this year suggests that the latter process may have begun.

Yet we see other factors that temper such optimism. These notably include ongoing regulatory uncertainty regardless of the election's outcome; a reluctance among many companies to make deals until they feel more confident about rates and the economy's trajectory; and the wild cards of energy prices, continuing wars overseas, and shifting political winds around the globe.

Our cautiously optimistic outlook applies across the major financial services sectors including banking, capital markets, and insurance. They share the macro environment and have their own specific challenges, as well.

Key considerations as we look ahead

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

1 Rev up the engine.
If you haven't been prepping to buy or sell, it's time to get moving. Companies that aren't actively considering transactions, transaction readiness, and/or don't have line of sight to sufficiently staffing their deal teams may find themselves at a competitive disadvantage.

2 Do your diligence.
Due diligence is more important than ever in the coming year, regardless of whether activity heats up or stays quiet. Deal makers must more closely scrutinize their diligence processes, integration approach, and the financial performance of their transactions.

3 Prepare for departure.
Organizations on the sell-side or contemplating divesting of specific business areas should concentrate on improving performance and defining potential deal perimeters.

Industry overviews

Banking

M&A in banking is inevitable as institutions of all sizes need to get bigger or get out. We're seeing many banks strengthening their M&A capabilities accordingly.

In the near-to-mid term, though, tighter antitrust policy and ongoing uncertainty about the final B3E rules should keep dealmaking relatively quiet.

Capital Markets

Consolidation remains a key theme for capital markets businesses such as asset management, alternative investments, and specialized technology providers, however not to the scale of the banking market. Cost reduction will continue to be a priority.

That said, we don't expect a meaningful jump in capital markets M&A until the appetite for dealmaking improves among companies generally.

Insurance

We've been bullish on the prospects for insurance M&A for some time, but we now expect activity to stay subdued well into 2025.

Large insurers want to see more interest-rate cuts and feel more confident about the economy before they commit to major deals. Brokerage should remain an active sector as firms of all sizes seek to upgrade their distribution.

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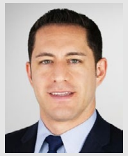

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