M&A trends in financial services

Q1 2025 M&A trends report

The dance of volatility and opportunity

Issue date: May 8, 2025

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Embracing change, one day at a time

Mergers and acquisitions (M&A) activity in the financial services (FS) sector in Q1'25 can best be viewed as two contrasting periods. The initial phase was marked by typical market fluctuations influenced by technological advancements, regulatory changes, and evolving market dynamics. However, the quarter was turned on its head in mid-March with the introduction of tariffs and a lack of economic clarity, triggering a cascade of public market shocks and escalating economic uncertainty. This turmoil continued unabated into the first weeks of Q2'25, only to be further complicated by an unexpected announcement on April 9 of a 90-day pause on most tariffs.

Market impact

It's no surprise that market fluctuations and uncertainty around trade policies have led to significant changes in key market indicators. The S&P 500 fell by 4.4 percent from the beginning to the end of Q1'25, marking the worst quarterly performance since the start of the pandemic and highlighting the substantial impact of tariffs on public markets. The Conference Board Consumer Confidence Index dropped to 92.9 in March from 100.1 in February, indicating a decline in consumer optimism and a potential reduction in consumer spending. Median one-year inflation expectations also rose to 3.1 percent in February, up from 3.0 percent in January,[1] adding more pressure on both consumers and businesses and influencing their spending and investment decisions. These trends underscore the market's sensitivity to ambiguous policy decisions and economic volatility.

> "In the midst of uncertainty, maintaining a steady and optimistic approach is important as it helps organizations identify opportunities, focus on their strengths, and position themselves for growth in the future."
>
> —Nadia Orawski
> *Principal, Advisory, KPMG LLP*

[1] "Medium- and Longer-Term Inflation Expectations Unchanged; Consumers' Pessimism About Their Future Financial Situations Increases," Federal Reserve Bank of New York, March 10, 2025

Transactions reflect adaptation

Transactions in FS during Q1'25 reflected the sector's efforts to adapt to a rapidly changing environment, capitalize on emerging opportunities, and enhance technological capabilities. The banking industry continued to demonstrate a focus on expansion of market presence, digital capabilities, enhancements in technological infrastructure, and customer experience. One notable example is Rocket Companies' $9.4 billion all-stock acquisition of Mr. Cooper Group,[2] a combined company servicing over $2.1 trillion in loan volume and nearly 10 million clients. This deal is a potential game-changer, driven by the need to enhance technological capabilities, improve customer experience, and achieve significant cost and revenue synergies. This transaction also has the potential to push some smaller players out of the market due to high costs.[3]

Similarly, LPL Financial's $2.7 billion acquisition of Commonwealth Financial Network underscores its focus on execution, technology, talent, and trust to drive sustainable growth in wealth management. This move positions LPL to expand its presence in the high-net-worth segment—a market they had been building organically—and enhances its competitive edge against private banks and wire houses while also potentially helping to increase its market share.

The insurance sector focused on expanding insurance capabilities, driving digital transformation, and acquiring brokerages to improve efficiency and competitiveness. In capital markets, M&A activity aimed to enhance private market capabilities, diversify offerings, and expand geographical reach.

While the quarter did see notable growth-focused transactions, it also signaled increasing market volatility reminiscent of the early stages of the Great Financial Crisis in 2007. Unlike the past, today's scenario is marked by a significant lack of clarity, prompting organizations to explore various strategic options.

The resulting declines in financial markets coupled with the dramatic rise in economic insecurity have challenged management teams in proceeding with large-scale M&A. Moreover, the decline in stock prices limited the capital available for M&A, making it difficult for public companies to execute large deals. Additionally, the lack of clarity around the scope, permanence, and long-term impact of tariffs further complicates strategic planning and decision-making.

It's unclear whether these trends will continue and if—or when—the intensity and frequency of shifts in economic indicators driven by executive orders and tariffs will increase, subside, or cease. However, the heightened level of anxiety, the increased unpredictability of the market, the potential for further economic downturns, and the uncertainty surrounding trade policies underscores the importance for leaders to embrace agile decision-making and continuous scenario planning.

Q1 2025 highlights

Deal activity is wallowing at or near five-year lows.

1,074
deals

-31.6%
decrease in number of deals QoQ

$88.3
deal value (in $US bn)

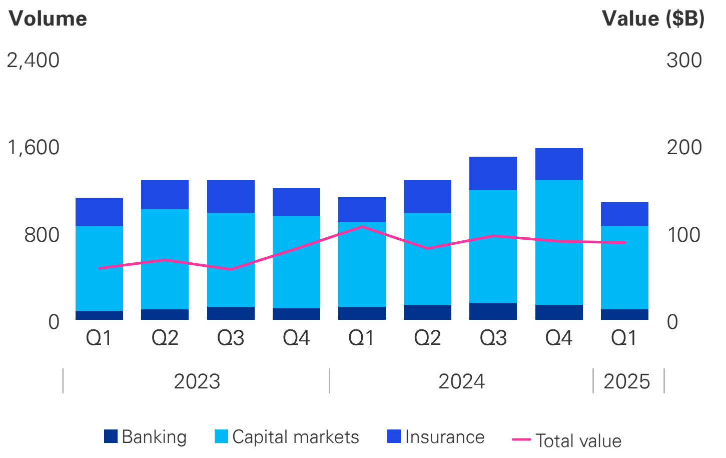
-1.8%
decrease in deal value QoQ

[2] "Mr. Cooper, America's Largest Servicer, Joins Rocket, the Nation's Largest Lender," Mr. Cooper Group, March 31, 2025
[3] Brad Finkelstein, "What the Rocket-Mr. Cooper deal means for mortgage lenders," American Banker, March 31, 2025

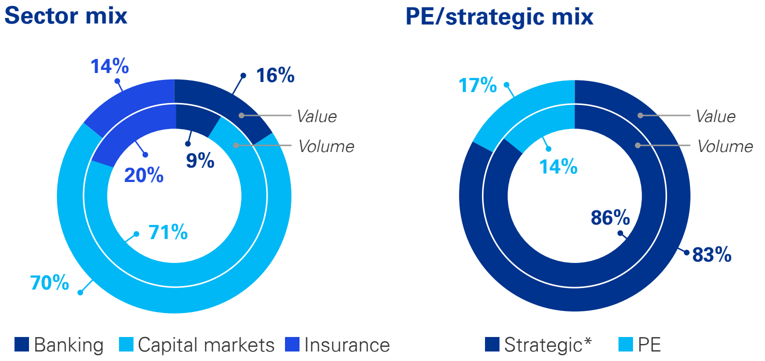
Slumping M&A activity

In Q1'25, the FS sector recorded 1,074 M&A deals, representing a 31.6 percent decrease from the previous quarter and a 4.4 percent decrease year-over-year (YoY). Deal value for this quarter amounted to $88.3 billion, reflecting a 1.8 percent decrease from the previous quarter and a 17.2 percent decrease YoY.

Financial services deal volume and value

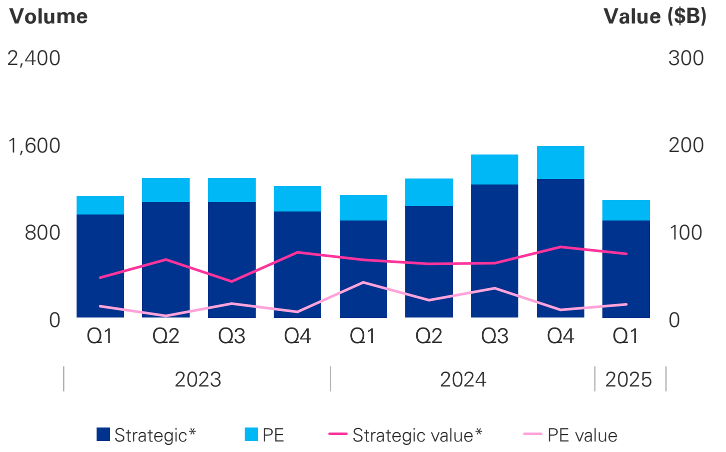


Financial services sector mix - Q1'25



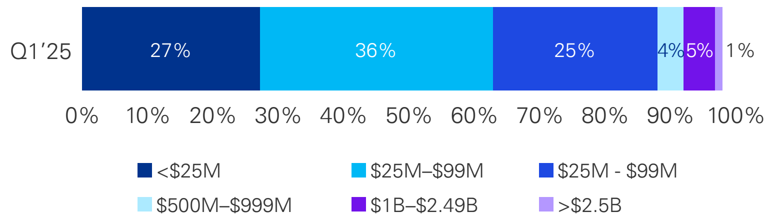
Values may not add to 100% due to rounding.
*Data also contains figures for SPAC deals.

Financial services deal volume and value



*Data also contains figures for SPAC deals.

Financial services strategic deal size mix - Q1'25



Note: Deals with disclosed values only. Values may not add to 100% due to rounding.

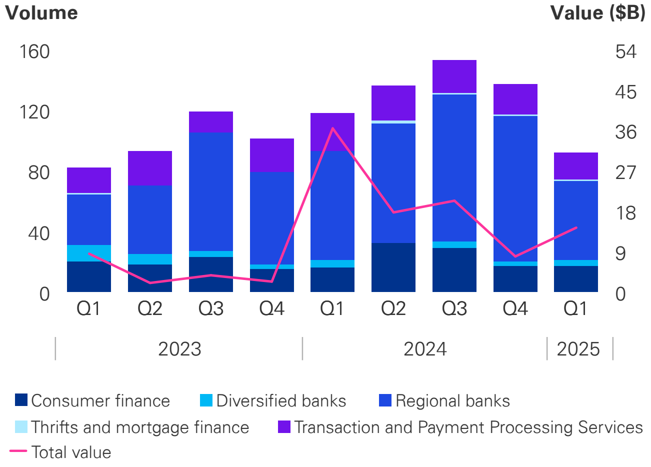
Subsector deals show decline

Banking

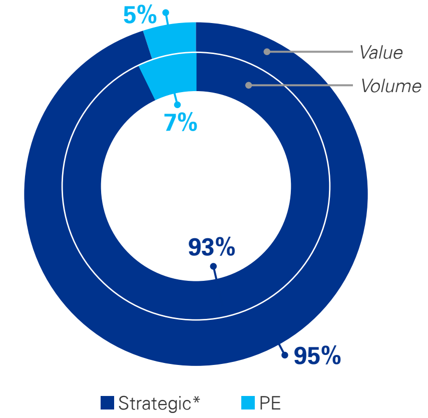
The banking subsector saw a significant decline in deal volume, with 92 announced deals in Q1'25, a 32.8 percent decrease from the previous quarter and a 22.0 percent decrease YoY. Total deal value was $14.3 billion, reflecting an 80.5 percent increase from the previous quarter but a 60.6 percent decrease YoY.

In an increasingly challenging deal environment, M&A across the banking space was muted, with an uptick expected towards the latter half of the year. Key drivers for bank M&A activity in Q1'25 included opportunistic acquisitions; geographic expansion and key market entry, especially for larger markets like Illinois, California, and Texas; and cost savings opportunities to reinvest in the customer experience.

Banking deals by subsector



FS PE strategic mix - Banking



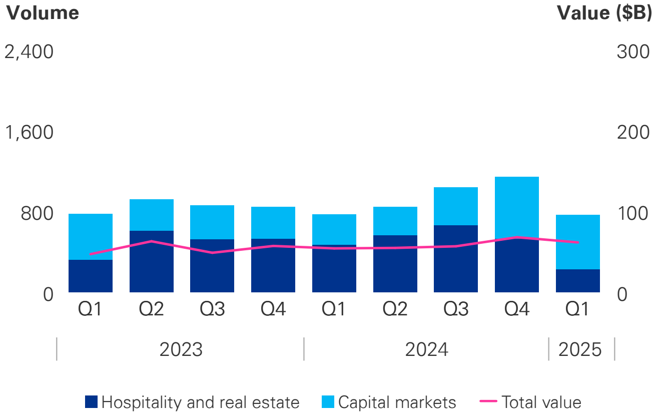
Values may not add to 100% due to rounding.
*Data also contains figures for SPAC deals.

Capital markets

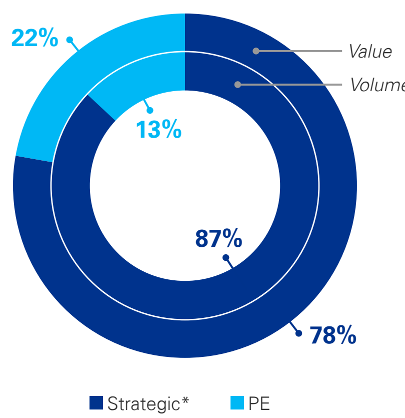
The capital markets subsector experienced a total of 764 announced deals in Q1'25, a 33.1 percent decrease from the previous quarter and a 1.0 percent decrease YoY. Deal value for this subsector amounted to $61.6 billion, reflecting a 9.4 percent decrease from the previous quarter but a 13.7 percent increase YoY.

M&A activity in capital markets had a 60/40 mix between strategic and financial buyers, respectively. Strategic buyers overwhelmingly looked to purchase hospitality and real estate companies in the quarter, whereas financial buyers continued the trend of rolling up smaller wealth management firms and RIAs.

Capital markets deals by subsector



Capital markets strategic/PE mix- Q1'25



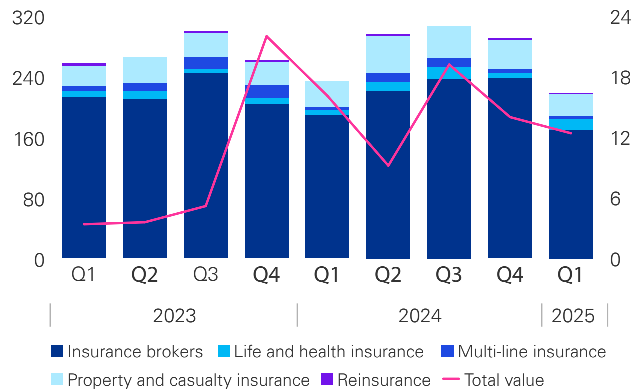
Values may not add to 100% due to rounding.
*Data also contains figures for SPAC deals.

Insurance

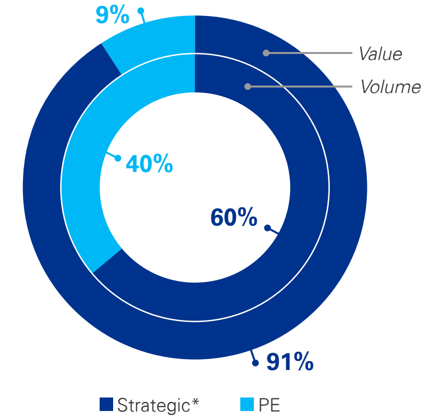
The insurance subsector recorded 218 announced deals in Q1'25, a 25.1 percent decrease from the previous quarter and a 6.8 percent decrease YoY. Total deal value for this subsector was $12.3 billion, reflecting an 11.6 percent decrease from the previous quarter and a 23.2 percent decrease YoY.

While there were a handful of life and annuity and property and casualty deals this quarter, the biggest trend was the continued acquisition trend within brokerage.

Insurance deals by subsector



Insurance strategic/PE mix - Q1'25



Values may not add to 100% due to rounding.
*Data also contains figures for SPAC deals.

Top deals

	Value (billions)
Acquirer: **Rocket Companies, Inc.** Target: **Mr. Cooper Group Inc.**	$9.4
Acquirer: **Genstar Capital** Target: **First Eagle Investments**	$4.0
Acquirer: **BlackRock, Inc.; Allianz SE; Hannover Rück SE; T&D Holdings, Inc.; Generali Financial Holdings** Target: **Viridium Holding AG**	$3.8
Acquirer: **Welltower Inc.** Target: **Amica Senior Lifestyles portfolio (portfolio consisting of 38 ultra-luxury seniors housing communities and nine entitled development parcels)**	$3.2
Acquirer: **LPL Holdings, Inc.** Target: **Commonwealth Financial Network**	$2.7
Acquirer: **Meiji Yasuda Life Insurance Company** Target: **Legal & General Insurance America (term life insurance business)**	$2.3

Deal data has been sourced from Capital IQ and Pitchbook, and then further refined and analyzed by KPMG LLP. The cited values and volumes cover inbound, domestic, and outbound US deals announced during the timeframe, including both majority and minority stakes. Deal values are based on publicly available data and are not exhaustive. Previously published statistics may be revised to incorporate new data or changes.

Resilience in the face of unpredictability

Looking ahead to Q2’25, we anticipate restrained M&A activity across the FS sector as clarity around tariff impacts eventually tamps down anxiety and the level of indecision in the markets hopefully begins to fade. Distressed assets continue to attract buyers even in challenging markets, and financial institutions may focus on divesting noncore assets to protect their core business and improve profitability. Private equity firms may see opportunities to acquire underperforming businesses at lower valuations, holding them until the economy improves. Additionally, smaller bank deals are getting approved faster, which could be a positive trend despite the market’s indecision.

Banking: Consternation amid consolidation

The banking industry is likely to see further consolidation as banks seek to achieve economies of scale and enhance their digital capabilities. However, the recent unexpected shifts in M&A activity, which have defied previous expectations even without considering the tariffs and follow-on volatility, are shouting out loud that the market is even more unpredictable than was anticipated. As further easing of regulatory policies under the new administration comes to fruition, we expect that it will create a more favorable environment for M&A, further spurring consolidation efforts, but the actual outcomes may vary due to the current volatility. In our view, banks should continue to opportunistically focus on integrating new technologies and data analytics to stay competitive and meet evolving customer expectations despite the precarious market conditions.

Specifically, the recent tariff announcements have injected significant trepidation into the banking sector. The banking sector is continuing to closely monitor and assess the potential economic impacts from the evolving tariff proposals. Depending on the ultimate policy outcome, an economic slowdown could result in reduced income fee, increased credit costs, and a reduction in loan growth.

Key areas of concern include:

- **Trade financing**: Banks that provide trade financing are seeing a cautious approach from clients as they navigate the new tariff landscape.
- **Auto loans:** The tariffs on imported cars and materials are likely to increase car prices, potentially reducing demand for auto loans and possibly leading to higher delinquencies.
- **Mortgages**: Elevated mortgage rates will likely continue to be a drag. The potential for hotter inflation and higher rates may squeeze bank margins.

The uncertainty surrounding tariffs is likely to dampen M&A activity, as banks become more cautious about making large acquisitions. Despite this, smaller deals may still proceed, driven by the need for consolidation and the faster approval process.

Insurance: Focus on digitalization and specialization

In the insurance subsector, we expect there to be a continued focus on digital transformation and the acquisition of specialized firms to address emerging risks and enhance operational efficiency. The growing demand for excess and surplus (E&S) insurance coverage should fuel additional M&A activity in the subsector. Insurers will need to leverage advanced analytics to better predict and manage risks, and to offer more tailored products to meet the needs of a diverse customer base.

Capital markets: Win with data-driven decisions

We anticipate that capital markets will remain active, with asset management companies pursuing M&A to boost their capabilities in private markets, diversify their offerings, and expand their geographical reach. The ongoing need to adapt to technological advancements and evolving market dynamics will continue to drive M&A activity in this subsector. Firms will need to stay agile and use real-time data analytics to make informed decisions and capitalize on emerging opportunities.

In the short term, dealmakers must remain vigilant and proactive as they navigate the twists, turns, bumps, and unexpected detours on the road ahead. With so much market instability, institutions will need to aggressively manage risks related to inflation and consumer caution.

Firms that stay focused on strategic moves and remain nimble in their decision-making will have a unique opportunity to enhance their capabilities, expand their market presence, and position themselves for significant growth through strategic acquisitions. To achieve this, they will need to prioritize data-driven decision-making, leverage advanced analytics, and maintain a flexible approach to M&A.

Key considerations as we look ahead

Financial services industry dealmakers thinking about M&A in the current environment should consider the following:

01

Seize opportunities during market turmoil:

Continue to scan the market and be ready to act fast should an opportunity present itself.

02

Evaluate noncore assets:

Now is the time to evaluate your assets and investment strategies to determine what you might want to shed (or be ready to shed) depending on the scenario that plays out.

03

Be prepared for any scenario:

Market turmoil is likely to persist. Stress-test your assumptions, develop multiple responses based on potential economic outcomes, and evaluate your strategies accordingly.

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 financial services industry, providing data-supported and tools-led insights, and delivering full M&A capabilities across the deal lifecycle.

With a financial services specialization, our teams bring both transaction and operational experience, delivering rapid results and value creation.

Our team

Experience wins the deal.

Each member of our deal team brings extensive industry experience and functional depth, working together to help you win the right deals, divest successfully and create long-term value.

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With special thanks to:
Anjelica Armendariz, Mannat Gupta, Whitney La Bounty, Muskan Maheshwari, Lara Volpe

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