

Financial institutions M&A: Sector trends

Opportunities for M&A transactions
in the European financial services sector

June 2017





Financial institutions M&A: Sector trends

Inorganic growth strategies are key to remaining competitive and winning market share in the European financial services sector

Almost a decade after the financial crisis, most European financial institutions are still grappling with the combined effects of higher regulation, lower interest rates, the explosion of new technology, and the arrival of many new 'disruptors' that are threatening the business models of even the best-capitalised and most sophisticated banks, asset managers, insurers and other key players in the financial services sector.

Navigating the complex and rapidly evolving European financial services ecosystem can be extremely challenging. In such a highly interconnected environment, individual financial services subsectors cannot—and should not—be considered in isolation.

With this in mind, our report highlights the key European M&A trends that span the main financial services subsectors, and offers insight into the outlook for M&A in each:

- Banks
- State-aided banks
- Fintech
- Asset management
- Market infrastructure
- Consumer credit
- Insurance

M&A forecast legend

- ▲▲▲▲▲ Flat
- ▲▲▲▲▲ Limited growth
- ▲▲▲▲▲ Steady growth
- ▲▲▲▲▲ Strong growth
- ▲▲▲▲▲ Significant growth

Banks

Current market

Upward

We are seeing

- Run-offs/sales of financial assets and disposals of non-core businesses
- More disposals triggered by mega-regulatory fines
- Continued focus on intra-group re-organisations, aimed at:
 - Optimising regulatory capital, governance, operational and tax efficiencies through centralisation of regulatory permissions and maximum utilisation of EU passporting efficiencies
 - Leveraging existing relationships across legal entities, business units and functions
 - Streamlining intra-group service arrangements
 - ‘Hard’ Brexit contingency planning

Key drivers

- Stronger capitalised banks are ready to grow again (and regulators are more open to this than before)
- International buyers taking advantage of the strengthening US dollar
- Response to potential ‘deregulation’ of the US banking sector (promised by the Trump administration) and optimism towards lighter UK regulation post-Brexit
- The need to compete with ‘challenger’ banks

Challenges

- But some banks:

- Are holding out for improved market conditions with a view to generate a higher sale price and achieve a positive impact on the valuation multiple of the retained business
- Have limited P&L capacity for losses and prefer to attempt to improve businesses before selling them
- Are seeking to optimise use of management time and resources

Trends to watch

- Differing prerogatives of local and supranational prudential regulators
- Heavy reliance on central bank liquidity/funding around Europe, but government rescue funds may not be large enough to cover existing financial needs
- Re-emergence of stronger, larger banks as acquirors
- Many banks, including mega-banks, are streamlining within borders, moving towards leaner and simpler business models. Will banks weaken within home markets?
- Where divestment activity is happening, it is better managed internally than ever before
- Slow progress on developing new capital structures, but transactions are being implemented
- Not clear whether insurance businesses will continue to justify capital strain for all larger banking groups. But who will buy them?



Systemically important banks are streamlining within geographic borders, continuing to generate deals through non-core disposals and strategic acquisitions

Our M&A forecast



A steady growth in M&A activity driven by factors such as uncertainty around the UK's regulatory equivalence post-Brexit, bullish Trump-era optimism, FX rates, and larger banks seeking to expand within newly selected core territories, while others continue with non-core disposal programmes.



Publicly reported examples

Disposals of non-core assets	<ul style="list-style-type: none"> □ Crédit Agricole's sale of its 15.42 per cent stake in Eurazeo (June 2017) □ UBS's sale of its Dutch wealth management business (June 2017) □ BNP Paribas's and Société Générale's sale of 4.4 million shares in Euronext (June 2017) □ UniCredit's sale of Bank Pekao (June 2017) and its Italian, German and Austrian integrated business solutions business (December 2016) □ Deutsche Bank's proposed sale of Deutsche Bank Polska (June 2017) □ Barclays' sale of its UK trust business (April 2017), French retail banking operations (December 2016), Singapore/Hong Kong wealth management businesses (November 2016) and Egyptian corporate banking business (October 2016) □ Société Générale's sale of its Croatian banking business (December 2016) □ Crédit Agricole's planned sale of stakes in >3 dozen regional banks for c. US\$19 billion to shore up its balance sheet (December 2016) □ Deutsche Bank's sale of its 19.99 per cent stake in China's Hua Xia Bank (November 2016) □ Credit Suisse's sale of a portion of its Swiss credit book (November 2016)
Intra-group reorganisations	<ul style="list-style-type: none"> □ Barclays' ongoing separation from Barclays Africa, most recently selling a further 33.7 per cent stake (June 2017) □ Deutsche Bank's ongoing integration of Postbank (March 2017)
Foreign buyers taking advantage of strengthening of US\$	<ul style="list-style-type: none"> □ HNA Group's acquisition of a 9.92 per cent stake in Deutsche Bank (May 2017) □ China Minsheng's announcement of its intention to acquire EU banks (November 2016)
Need to compete with 'challenger' banks	<ul style="list-style-type: none"> □ Zopa applied for a banking licence to expand its savings and credit offerings (December 2016) and has subsequently successfully raised £32 million (June 2017) □ Clear Bank is the first in decades to be granted approval to access the Bank of England's clearing platform (January 2017)
Government rescue funds may not be large enough to cover existing financial needs	<ul style="list-style-type: none"> □ Italy's Atlante is not big enough to cover Monte dei Paschi and Banca Popolare di Vicenza (May 2017) □ Greece's Hellenic Financial Stability Fund is not large enough to cover Greek bank exposure of €116 billion to NPLs and €95 billion in overdue obligations (January 2017)
Streamlining within borders and movement towards leaner and simpler business models	<ul style="list-style-type: none"> □ Goldman Sachs', Royal Bank of Scotland's and Banco Bilbao Vizcaya Argentaria's proposed closure of banking branches in South Korea (June 2017) □ Deutsche Bank's sale of its Argentinian operations (June 2017) □ Barclays' ongoing sell-down of Barclays Africa Group (June 2017) □ Barclays' disposal of its Singapore and Hong Kong wealth management businesses (November 2016)

State-aided banks

Current market

Upward, significant

We are seeing

- Strategic M&A deals
- Financial sponsor interest
- NPL management and disposals
- Non-core disposals
- Bank consolidations
- M&A activity involving government stability funds

Challenges

- Government stability funds' exit strategies are under pressure. Temporary financing measures are necessary to allow breathing space as auction processes are becoming increasingly challenging. Stability funds' pockets are not deep enough to finance temporary measures while auctions are run
- Rising borrowing costs for struggling banks
- Few committed buyers and tough deal financing market conditions
- Hard to sell to the market while governments attempt to redefine regulatory landscapes

- Stringent auction process rules
- Private equity buyers seeking to extract buyer-friendly deal protection from sellers
- Buyer sentiment adversely impacted by inconsistent attitude towards implementation of EU legislation
- Heightened litigation risk: 'private' litigation from market participants' reaction to government action, 'public' litigation from regulatory inconsistency and 'public' litigation from application of new Member State regulatory reforms

Trends to watch

- There is a perception that local prudential regulators are being lenient on sellers. But it is not clear whether direct supervision of Significant Institutions by the European Central Bank will result in strict compliance with resolution ability
- Conflict between antitrust and prudential regulatory imperatives continues to complicate processes



Increasing pressure from the ECB and local regulators—alongside challenges faced by government stability funds—is continuing to drive M&A

Our M&A forecast



A constant flow of M&A activity as EU governments seek to offload 'good' banks, and the European Central Bank exerts pressure on market participants, especially across Italy, Greece, Spain and Portugal.



Publicly reported examples

NPL management and disposals	<ul style="list-style-type: none"> □ Bank of Greece has instructed audit firms to help project manage Greek banks' NPLs (January 2017) □ Portugal has announced new laws aimed at tackling NPLs (October 2016) □ EU banks still have €1.2 trillion of NPLs and funds raised US\$7 billion in 2016 to acquire EU NPLs (December 2016)
Non-core disposals	<ul style="list-style-type: none"> □ Piraeus Bank's proposed sale of its banking subsidiaries in Bulgaria, Romania, Serbia, Albania and Ukraine (June 2017) □ National Bank of Greece's sale of United Bulgarian Bank and Interlease to KBC Group (June 2017) □ BES Vénétie's sale of Lisbon-based soccer club Benfica (June 2017) □ Piraeus Bank's proposed sale of its 31.2 per cent stake in Marfin Investment Group Holdings (May 2017) □ Alpha Bank's sale of its banking subsidiary in Serbia (April 2017) □ National Bank of Greece's sale of its stake in South African Bank of Athens (March 2017)
Bank consolidations	<ul style="list-style-type: none"> □ Bankia–Banco Mare Nostrum merger (March 2017) □ Banca Popolare di Milano–Banco Popolare Societa Cooperativa merger (October 2016)
Exit strategies under pressure	<ul style="list-style-type: none"> □ Italy's Atlante is not big enough to cover the financial needs of Monte dei Paschi di Siena, Banca Popolare di Vicenza and Veneto Banca (May 2017)
Rising borrowing costs for struggling banks	<ul style="list-style-type: none"> □ DBRS cut Italy's sovereign credit rating to BBB (high) from A (low) (January 2017)
Few committed buyers and hard to sell while governments attempt to redefine regulatory landscapes	<ul style="list-style-type: none"> □ National Bank of Greece struggled to find buyers for Ethniki Hellenic General Insurance. After many months, National Bank of Greece finally sold to Exin Partners (June 2017) □ No expressions of interest were received following Italy's re-launch of auction sales of the 'good banks' of Banca Popolare, CariChieti, CARIFE and Banca della Marche (January 2017) □ Turkey's Savings Insurance Deposit Fund failed to sell Adabank 10 times (October 2016)
Stringent auction process rules	<ul style="list-style-type: none"> □ Royal Bank of Scotland's proposed sale of its stake in Alawwal Bank (previously Saudi Hollandi) was abandoned. Alawwal Bank was rumoured to be in merger talks with Saudi British Bank (April 2017)
PE seeking to extract buyer-friendly deal terms	<ul style="list-style-type: none"> □ Apollo/Centerbridge were reported to have sought state guarantees to cover riskier assets in connection with the consortium's bid for Novo Banco (January 2017)
Buyer sentiment adversely impacted by inconsistent implementation of EU legislation	<ul style="list-style-type: none"> □ BlackRock, Pimco and 12 other institutional investors have sued Bank of Portugal for losses resulting from the bail-in of Novo Banco in December 2015 (April 2016)
Heightened risk of 'private' and 'public' litigation	<ul style="list-style-type: none"> □ Royal Bank of Scotland faced a legal battle with retail investors who were allegedly misled in connection with its 2008 capital raising. Royal Bank of Scotland finally reached a settlement with the remaining claimants (June 2017) □ A group of Novo Banco bondholders wrote to the Bank of Portugal to manifest their opposition to a senior bond exchange operation that could result in €500 million of losses (May 2017) □ Cypriot bank depositors sued the European Commission for damages resulting from an EU bail-in scheme for Cyprus (October 2016)

Fintech

Current market

Upward, significant

We are seeing

- Strategic M&A deals
- Interest from financial sponsors and new entrants

Key drivers

- First signs of tangible fintech success whets appetite
- Paradigm shift in how established financial institutions view fintech services. Fintech is embraced as an enabler of financial services rather than as a disruptor of traditional models
- Top-down support for fintech businesses. In the UK, for instance, the Government's push to making the UK a 'global capital of fintech' has provided the UK Prudential Regulation Authority (PRA) and the FCA with increased resources to ease the regulatory bottleneck. But the UK faces stiff competition
- Progressive regulatory and supervisory approach. Both the PRA and the FCA are acutely aware of their roles in ensuring the UK is 'open for business' in the run up to and beyond Brexit

Trends to watch

- Financial sponsor interest in fintech
- Competition for existing customer bases and profit margin pressures have forced global banks and insurers to look for new ways of attracting consumers. Fintech could offer the just-in-time personalised service and intuitive end-user experience that retail banks are searching for

- Opening up new markets. Fintech could afford innovative avenues for reaching significant unbanked and under-banked communities in China, Africa, India and SE Asia
- Optimising existing customer bases. Fintech could offer the enhanced quality of analytics required to process and maximise usage of the large volumes of data already generated by banks and insurers
- New efficient and cost-effective service provision models. Fintech could be the answer to re-architect archaic legacy IT systems that are a drain on internal resources



Regulator and financial sponsor support is at an unprecedented high. Fintech is now regarded as an enabler rather than a disruptor

Our M&A forecast



Fintech is an M&A hotbed for financial sponsors and established financial institutions, as established financial institutions seek to decommission old technology, catch up with innovation from new entrants and meet growing compliance requirements.

Software majors will continue adding new technology to deepen the offering to financial service providers, particularly online wealth management, data-driven consumer lending platforms and cybersecurity.

'Regtech' could potentially de-clutter intertwined data sets and reduce configuration time for reporting. Existing market players will continue consolidating to take advantage of synergies, acquire new talent and access new markets particularly in the payments space.

But questions remain whether banks can really replace legacy IT systems with blockchain and when business valuations will start to factor into the future value of proven innovation.



Publicly reported examples

First signs of tangible fintech success is whetting appetite	<ul style="list-style-type: none"> □ Calastone's successful testing of blockchain in the funds industry (June 2017) □ Banco Bilbao Vizcaya Argentaria's use of blockchain to move money across borders (April 2017)
Fintech is being embraced as an 'enabler' of financial services	<ul style="list-style-type: none"> □ Aviva Ventures led a £5 million series A equity investment into Neos (June 2017) □ Aviva's proposed 'smaller tactical' acquisitions of fintech businesses to enhance digital innovation in its insurance offerings (May 2017) □ NIBC Bank's strategic investment in Ebury (May 2017) □ NIBC Bank's acquisition of a 30 per cent stake in Flinger (April 2017)
Progressive regulatory and supervisory approach with top-down support	<ul style="list-style-type: none"> □ EU Commission has passed a resolution to support expansion of fintech (May 2017) □ Cross-border governmental co-operation, e.g., UK/Hong Kong (May 2017) and UK/Japan (March 2017) □ Russian central bank and lenders from the Fintech Association intend to set up an instant payment platform for Russian citizens (April 2017) □ The PRA's New Bank Start-up Unit is operational (January 2016)
Financial sponsor interest in fintech	<ul style="list-style-type: none"> □ Zopa raised £32 million from investors including Northzone (June 2017) □ Fintech Acquisition Corp. raised US\$100 million in February 2015 and US\$153 million in February 2017 via Nasdaq (January 2017) □ Acquiring entire Fintech businesses: <ul style="list-style-type: none"> – Pollen Street/BC Partners' bid for Shawbrook (June 2017)
Established financial institutions interest in fintech	<ul style="list-style-type: none"> □ Acquiring entire fintech businesses: <ul style="list-style-type: none"> – BNP Paribas's acquisition of PaySquare (May 2017) □ JV-ing with competitors to develop new technologies <ul style="list-style-type: none"> – Deutsche Bank, HSBC and UniCredit are 3 of the 7 EU banks collaborating to develop blockchain-based trade finance platform (January 2017) □ Establishing third-party accelerator programmes: <ul style="list-style-type: none"> – Barclays' partnership with Techstars to create the Barclays Accelerator programme (December 2015) □ Funding fintech start-ups in exchange for 'early bird' stakes: <ul style="list-style-type: none"> – Santander InnoVentures (July 2014)
'Non-traditional' interest in fintech	<ul style="list-style-type: none"> □ Orange's acquisition of strategic interest in Groupama Banque to launch mobile banking products (October 2016) □ Saudi Arabia's Public Investment Fund invested US\$45 million in a new fintech fund (October 2016)
Global banks and insurers looking for new ways of attracting consumers	<ul style="list-style-type: none"> □ Natixis's acquisition of a majority stake in PayPlug (April 2017) □ BNP Paribas's plan to invest €3 billion in digital technology by 2020 (November 2016)
Using fintech to open up new markets	<ul style="list-style-type: none"> □ Invapay hired EY to advise on establishing a JV with Chinese and Japanese partners (December 2016)
Search for new efficient and cost-effective service provision models	<ul style="list-style-type: none"> □ Sveriges Riksbank's proposed issue of 'ekrona', a new Swedish digital currency (November 2016)

Asset management

Current market

Upward, significant

We are seeing

- Movement away from traditional fund management models
- Increased regulatory burden
- Technological developments
- Lower margins (costs and competition from passive strategies)
- Disruptive behaviour/new entrants
- FCA review of fund management industry

Key drivers

- Increased use of passive investment strategies
- Asset managers are responding to increased competition from 'alternative' service providers
- Established banks seeking to shore up balance sheets through non-core disposals
- Consolidation driven by economies of scale and synergies
- Global players focusing on key growth markets
- Growing international, private equity and 'non-traditional' buyer interest in asset and management businesses
- New technology and emergence of disruptive new entrants
- Market disruption from regulatory change:
 - MiFID II, which is expected to lead to higher overhead costs due to restrictions on commission-based arrangements with brokers and more stringent fee transparency requirements
 - EU GDPR, which will necessitate significant upfront investment and lead to higher

ongoing compliance costs due to direct compliance obligations on both controllers and processors of customer data as well as elevated reporting standards

Challenges

- Local regulatory intervention (e.g., UK Financial Conduct Authority's (FCA)) lashing out at the charging of 'dealing commissions' for research and French Autorité des marchés financiers' consultation into conditions for implementing redemption gates on open-ended funds)

- Brexit

Trends to watch

- Market consolidation, as asset managers seek to build scale in response to shrinking profit margins and rising regulatory costs, across all market participants
- Increasing customer expectations. UK fund managers are expanding into international markets to meet growing customer demand for global products
- Competing with international fund managers in European markets
- Jostling for preeminent service provider status amidst ongoing market structure changes, for example, becoming the 'go to' provider of high-margin products/services
- Reaction to disruption from fintech innovation
- China and US inbound investment into Europe (weaker £/€ means cheaper for US/China buyers)
- Some banks stepping back from asset management while others stepping up



Increasing competition, pressure on costs and changes in investor behaviour have already led to some consolidation in the industry. Much more is on the horizon

Our M&A forecast







Significant uptick in consolidation activity at all levels of the market and growing international buyer interest. A number of notable market players have already announced consolidation plans.



Publicly reported examples

Increased use of passive investment strategies	<ul style="list-style-type: none"> Global exchange-traded fund industry exceeded US\$4 trillion in assets in April 2017 (May 2017) BlackRock and Vanguard control 55 per cent of the global ETF market (January 2017) 		
Responding to increased competition from fintechs	<ul style="list-style-type: none"> BinckBank's acquisition of Pritle (March 2017) Royal Bank of Scotland's replacement of 220 investment advisers with robo-advisers (March 2017) UBS's launch of its UK robo-adviser (October 2016) 		
Non-core disposals and focus on core markets	<ul style="list-style-type: none"> UBS's disposal of wealth management business in the Netherlands (June 2017) UniCredit's disposal of Pioneer Asset Management (December 2016) Barclays' disposal of Singapore/Hong Kong wealth management businesses (November 2016) 		
Growing buyer appetite	<ul style="list-style-type: none"> Foreign buyers: <ul style="list-style-type: none"> HNAs acquisition of a strategic stake in Old Mutual's US asset management unit (March 2017) Financial sponsors: <ul style="list-style-type: none"> Bridgepoint's potential acquisition of 50 per cent of Primonial (November 2016) KKR's potential acquisition of Jupiter Fund Management (December 2016) 'Non-traditional' investors: <ul style="list-style-type: none"> Saudi's Public Investment Fund announced plans to invest US\$65 billion with foreign asset managers (May 2017) 		
Banks searching for stable returns	<ul style="list-style-type: none"> Credit Suisse Group announced plans to expand its onshore wealth management business (January 2017) Mediobanca announced a €1 billion war chest for 2017-2020 wealth management acquisitions (November 2016) 		
Market consolidation, at all levels	<ul style="list-style-type: none"> Larger: <ul style="list-style-type: none"> Standard Life-Aberdeen Asset Management merger (March 2017) Amundi's acquisition of Pioneer (March 2017) HSBC's announcement plans for acquisitions of asset management portfolios (February 2017) HSBC Deutschland's proposed expansion in Germany (January 2017) 	<ul style="list-style-type: none"> Mid-sized: <ul style="list-style-type: none"> Bank Pekao's acquisition of a 51 per cent stake in Pioneer Pekao Investment Management (June 2017) Groupe Crystal's acquisition of Expert & Finance (June 2017) ICU Group's acquisition of UkrSib Capital (June 2017) Lombard International's joint venture with Akaan (May 2017) Amaika announced plans to acquire asset managers that are of an equal size or smaller than itself (May 2017) 	<ul style="list-style-type: none"> Smaller: <ul style="list-style-type: none"> Van Lanschot Kempen's acquisition of UBS Group's domestic wealth management activities in the Netherlands (June 2017) Gresham House's acquisition of Hazel Capital (May 2017)
UK fund managers expanding into foreign markets	<ul style="list-style-type: none"> Schroders' acquisition of Adveq (April 2017) M&G's expansion into Nordic markets (August 2016) 		
Competing with foreign fund managers in European markets	<ul style="list-style-type: none"> Convoy's acquisition of a strategic stake in Nutmeg (November 2016) GF Fund Management's expansion into Europe (January 2016) 		

Market infrastructure

	Payment systems/ E-money providers	Trading platforms	Financial benchmarks	Custodians
Current market	Upward	Upward, high levels of activity	Upward, significant levels of M&A	Flat, with a dip in the levels of M&A
We are seeing	Strategic M&A deals and financial sponsor interest	Strategic M&A deals	Strategic M&A deals	Strategic M&A deals □ Non-core disposals by banks, but some custodians with robust balance sheets focus on organic growth in terms of product lines and jurisdictional coverage
Key drivers	<ul style="list-style-type: none"> □ Market participants are forced to scale up to meet reduced profitability resulting from new regulations □ Increasing operating costs resulting from additional regulatory burden and increasing litigation risk in connection with multilateral interchange fees □ Competition from a growing range of alternative services and innovators 	<ul style="list-style-type: none"> □ Market consolidation globally and regionally, but some signs of platforms concentrating efforts within 'home continent' markets 	<ul style="list-style-type: none"> □ Increasing operating costs resulting from the burden of new regulation and heightened regulatory enforcement action risk from both EU and non-EU regulators 	<ul style="list-style-type: none"> □ Increasing operating cost bases and heightened regulatory enforcement action risk following regulatory reforms □ Rise in outsourcing arrangements, with BNY Mellon, State Street, J.P. Morgan and Citi remaining predominant. But other market participants are making inroads
Trends to watch	<ul style="list-style-type: none"> □ Private equity interest in payment service providers 	<ul style="list-style-type: none"> □ Co-operation and operational harmonisation between exchanges through joint ventures and other forms of strategic alliance, prompted by the European Central Bank under Target2-Securities □ Vertical integration and inorganic growth into clearing, custody and financial information service provision 	<ul style="list-style-type: none"> □ A smaller number of market participants having sufficient infrastructure to support a benchmark administration business, given the FCA in effect treats administrators as 'mini-regulators' vis-à-vis their data submitters □ Uncertain profit margins 	<ul style="list-style-type: none"> □ Private equity consolidators
Our M&A forecast	 Relatively steady M&A levels. Main motivation is likely to include competition with established market participants, compounded by disruption by innovators	 An uptick in market consolidation. Main motivation is likely to include regulatory change, such as MiFIDII expanding the types of trading venues which are regulated	 Slow-down in M&A activity. Many businesses have already upscaled their operations, but a further 'thinning of the herd' is likely. Main motivations are the new EU Benchmark Regulations, which will bring a number of new benchmarks within the regulatory perimeter, the rise in regulatory and private litigation risk, and data contribution contracts that are becoming trickier to negotiate	 Uptick in consolidation M&A. Competition from Central Securities Depositories (CSDs) is one of the main drivers. Due to The EU Central Securities Depositories Regulation, CSDs face increasing competition and are encroaching on custodians

 **Regulatory change continues to be a key driver of M&A activity**



Publicly reported examples

Payment systems/E-money providers

Market participants being forced to scale up	<ul style="list-style-type: none"> □ Moneycorp's acquisition of Commonwealth Foreign Exchange (May 2017) □ Swedbank's acquisition of PayEx (May 2017) □ BNP Paribas Fortis's acquisition of PaySquare Belgium (May 2017)
Increasing litigation risk	<ul style="list-style-type: none"> □ 27 UK High Street companies filing individual multilateral interchange fee claims against Visa and MasterCard totalling £300 million (June 2017)
Competition from innovators	<ul style="list-style-type: none"> □ Plynk raised €25 million from Swiss Privée Ltd (June 2017) □ Square's official launch in the UK (March 2017)
Private equity interest in payment service providers	<ul style="list-style-type: none"> □ Advent/Bain's acquisition of Concardis (January 2017) □ AnaCap's acquisition of Heidelpay (January 2017)

Trading platforms

Market consolidation	<ul style="list-style-type: none"> □ J.P. Morgan Chase acquired 114.4 million shares of Moscow Exchange (June 2017) □ Deutsche Börse announced that its €200 million share buyback will be used to fund 'targeted M&A' (April 2017)
Concentrating on 'home continent'	<ul style="list-style-type: none"> □ Deutsche Börse's sale of International Securities Exchange Holdings to Nasdaq (June 2016)
Co-operation between exchanges	<ul style="list-style-type: none"> □ Nasdaq and Shanghai Stock Exchange are rumoured to be in talks over Kazakh bourse stake (May 2017)
Vertical integration and organic growth	<ul style="list-style-type: none"> □ Clearing: Deutsche Börse has been ahead of the curve for a long while through the merger between Deutsche Börse Clearing and Cedel International (early 2000), followed by the full integration of Clearstream (July 2002) □ Custody: Australian Securities Exchange JV-ed with Digital Asset Holdings to develop blockchain solutions in connection with domestic cash equities clearing and settlement (January 2016) □ Financial information services: Deutsche Börse sees M&A opportunities in the index data and analytics space (June 2017)




Financial benchmarks

Significant levels of M&A	<ul style="list-style-type: none"> □ LSE's acquisition of The Yield Book and Citi Fixed Income Indices (May 2017) □ ICE's upcoming launch of clearing for London gold benchmark (May 2017)
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Custodians

Rise in outsourcing	<ul style="list-style-type: none"> □ BlackRock transitioning US\$1 trillion of AuM from State Street to J.P. Morgan for custody (January 2017)
Smaller activity	<ul style="list-style-type: none"> □ BNP Paribas selected by MAPFRE Inversión to provide custody services for its €60 billion portfolio (February 2017)
Organic growth by custodians with strong balance sheets	<ul style="list-style-type: none"> □ JTC Group's acquisition of New Amsterdam Cititrust B.V. (April 2017) □ ZEDRA's acquisition of Barclays' UK trusts business (April 2017)
Heightened regulatory enforcement action risk	<ul style="list-style-type: none"> □ Citigroup agreed to pay US\$97 million to end the US Department of Justice's money-laundering probe (May 2017) □ Deutsche Bank was fined US\$41 million by the US Federal Reserve for failures to screen for possible money laundering (May 2017)
Private equity continuing to be active	<ul style="list-style-type: none"> □ Equiom Group continues to look for acquisition opportunities in Europe (November 2016)

Consumer credit*

	Credit cards	Payday lenders	Specialty finance/marketplace lending
Current market	Flat	Flat	Upward
We are seeing	Strategic M&A deals and financial sponsor interest	Strategic M&A deals	Strategic M&A deals and financial sponsor interest
Key drivers	<ul style="list-style-type: none"> Excluding megadeals, broadly, M&A levels have been adversely impacted by financial sponsor focus on more lucrative NPL investment returns Credit cards have a higher risk profile under the Consumer Rights Act 2015, and banks seek to dispose of non-core high-risk profile business units and move to distribution/white-labelling models Banks seeking to limit exposures to liability for mis-selling of PPI 	<ul style="list-style-type: none"> Reduced profitability, following the FCA's imposition of price caps on high-cost short-term credit with effect from 2 January 2016 Increased operation costs, following the FCA's regulation of consumer credit firms with effect from 1 April 2014 Increased operating/regulatory risks Increased litigation risks, following on from enhanced consumer protection rights under the Consumer Rights Act 2015 	<ul style="list-style-type: none"> Success of marketplace lending securitisation, which has increased availability of capital and financial sponsor interest in providers Material successes in recent fund raisings mean larger players have well-stocked M&A war chests More partnerships, as established banks actively seek access to new customer bases. Established banks' confidence seem to have recovered, although they are now more focused on adequate diligence before entering into joint ventures
Trends to watch	<ul style="list-style-type: none"> Interest in consumer credit portfolios from trade consolidators and private equity 	<ul style="list-style-type: none"> 'Thinning of the herd' 	<ul style="list-style-type: none"> Increased consolidation activity Growth of new and established lenders driven by government support for responsible alternative finance for SMEs As Brexit looms, specialty finance providers have perhaps found their niche as providers of alternative finance for SMEs and short-term finance for consumers, while High Street banks focus more on high-value commercial lending M&A activity has been dampened by heightened regulatory investigation/enforcement action and consumer litigation risk. Are poor internal systems and controls systemic across internet-based consumer lending platforms?
Our M&A forecast	 <p>M&A activity levels to remain relatively steady</p>	 <p>An increase in M&A activity driven by market participants upscaling to meet increasing operating costs and lower profit margins, and diversifying their product/service offering</p>	 <p>An increase in M&A activity from market participants which have enjoyed first-mover advantage, but that increase may take a while. Market participants are likely to focus on their own product/service offerings and distribution models, and reorient themselves to comply with expected p-2-p lending regulations, in the short term</p>

*Consumer credit markets differ substantially across Europe. This section focuses on the UK given significant levels of M&A driven by regulatory change and the resulting investor behaviour.

“With many larger banks focusing on corporate lending, consumers are turning to alternative finance sources, potentially heralding a new era of inorganic growth for specialty finance businesses



Publicly reported examples

Credit cards/consumer credit

Banks seeking to dispose of non-core high-risk profile business units	<ul style="list-style-type: none"> Bank of America Corp's disposal of MBNA (May 2017) Banco Popular Español's disposal of Popular Servicios Financieros (May 2017) Banco Popular's proposed disposal of WiZink (April 2017) Banco de Sabadell's disposal of its consumer credit portfolio (December 2016)
Banks seeking to limit exposures to liability for mis-selling of PPI	<ul style="list-style-type: none"> Lloyds Banking Group reportedly considered terminating negotiations to acquire MBNA due to concerns of a £4 billion fine for PPI mis-selling (October 2016)
Interest in consumer credit portfolios from trade consolidators and PE	<ul style="list-style-type: none"> Lloyds Banking Group's acquisition of MBNA (May 2017) DSO group's acquisition of Effico (February 2017) MasterCard's acquisition of VocaLink Holdings (April 2017)

Payday lenders

Reduced profitability of payday lenders	<ul style="list-style-type: none"> Wonga Group reported c. £80 million of losses in 2015 (May 2016)
Increased operating/regulatory risks for payday lenders	<ul style="list-style-type: none"> £220 million fine for Wonga, £20 million fine for Cash Genie and £15.4 million fine for Dollar Financial (June 2016)
Increased litigation risks for payday lenders	<ul style="list-style-type: none"> Dollar Financial was forced to repay customers of Money Shop, Payday UK, Payday Express and Ladder Loans (November 2015)
'Thinning of the herd'	<ul style="list-style-type: none"> CFO Lending's collapse into administration (April 2017) Wonga's disposal of BillPay (February 2017)

Specialty finance/marketplace lending

Success of marketplace lending securitisation	<ul style="list-style-type: none"> Marketplace lending securitisations have remained a bright spot in the ABS market. Total issuance topped US\$3 billion in Q1 2017 with cumulative issuance totaling US\$18 billion across 80 deals (May 2017)
Increased consolidation activity in specialty finance/marketplace lending	<ul style="list-style-type: none"> Ekspres Bank's acquisition of Sevenday Finans (June 2017) 1pm's acquisition of Tracx Finance (May 2017)
More partnerships in specialty finance/marketplace lending	<ul style="list-style-type: none"> Lending Club's share price rose 17 per cent in Q4 2016 (December 2016) Barclays, Royal Bank of Scotland, Lloyds, HSBC and Natixis injected £325 million into Together (March 2016)
Growth of new and established lenders	<ul style="list-style-type: none"> Zopa raised £32 million from investors including Wadhawan Global Capital and Northzone (June 2017) RateSetter raised £13 million from investors including Neil Woodford and Artemis (May 2017)
Specialty finance providers find their niche	<ul style="list-style-type: none"> Zopa applied for a banking licence to provide a wider range of credit products (December 2016) Trade Finance Solutions announced plans to acquire bolt-on targets in Europe (August 2016)

Insurance

Current market

Upward

We are seeing

- Strategic M&A deals
- Significant consolidation as soft market and higher capital requirements are driving potential for consolidation in general/reinsurance sectors
- Intra-group reorganisations

Key drivers

- Appetite to replicate UK back-book consolidation around Europe
- Asset availability as EU banks offload non-core assets
- Market participants searching for growth outside primary markets
- Financial sponsor interest in insurance assets
- Heightened US/China inbound interest in insurance assets
- Global Systemically Important Insurers reducing Solvency II/regulatory capital requirements by shedding capital-intensive business lines

Trends to watch

- Solvency II and Senior Insurance Managers Regime require a full list of those in key functions to be set out in a governance map showing clear lines of reporting and organisational responsibility. This is driving intra-group reorganisations aimed at optimising regulatory capital efficiencies, in lieu of the new risk-based Solvency II requirements, and improving corporate governance structures
- Searching for growth and higher profit margins outside primary markets
- Ongoing consolidation in the life sector
- Investment in fintech



Favourable environment for insurance M&A including ongoing consolidation in the life insurance sector

Our M&A forecast



Sustained levels of M&A across Europe driven by continued pressure on the Global Systemically Important Insurers to exit legacy and non-core portfolios and focus on capital redeployment to escape additional operational and regulatory burden of the 'SIFI' designation.

Roger Kiem
Partner, Frankfurt
Co-leader of Financial Institutions
M&A Group



Publicly reported examples

Strategic M&A deals	<ul style="list-style-type: none"> □ Vienna Insurance Group's acquisition of AXA's life and savings insurance operations in Romania (April 2017) □ Rand Merchant Investment Holdings' acquisition of 29.9 per cent of Hastings Insurance (December 2016) □ Marsh & McLennan's acquisition of Bluefin Insurance Group (November 2016) □ Assured Guaranty's acquisition of MBIA UK Insurance (January 2017)
Significant consolidation in general/reinsurance sectors	<ul style="list-style-type: none"> □ Towergate's merger with Autonet, Chase Templeton Holdings, Ryan Direct Group and Price Forbes (May 2017) □ Aviva's acquisition of the remaining 5 per cent stake in VietinBank Aviva Life Insurance from (April 2017) □ Global Bankers Insurance Group's acquisition of NN Life Luxembourg (April 2017) □ Allianz's acquisition of the remaining 33.5 per cent stake in Allianz-Irish Life Holdings (February 2017) □ Phoenix Group's acquisition of Abbey Life's UK insurance business (December 2016) □ Chesnara's acquisition of Legal & General's Dutch life operations (November 2016) □ Mirae Asset Life's acquisition of PCA Life Insurance (November 2016)
Asset availability	<ul style="list-style-type: none"> □ National Bank of Greece's proposed sale of Ethniki Hellenic General Insurance (June 2017) □ Liverpool Victoria Friendly Society's proposed sale of its general insurance division (May 2017) □ Generali's proposed sale of its divisions in Belgium, Portugal and the Netherlands (March 2017)
Market participants searching for growth outside primary markets	<ul style="list-style-type: none"> □ Zurich Insurance Group's acquisition of Australia's Cover-More Group (April 2017) □ Lloyd's of London set up an Indian reinsurance branch (April 2017) □ Cobalt Insurance received approval from Lloyd's of London to launch the first fully Shari'ah-compliant syndicate (October 2016)
Financial sponsor interest in insurance assets	<ul style="list-style-type: none"> □ JC Flowers' acquisition of UK General Insurance (May 2017) □ Cinven's acquisition of Eurovita (April 2017) □ Apollo-backed Athene is seeking insurance/reinsurance acquisition opportunities in Germany and the UK (March 2017)
Systemically important institutions shedding capital-intensive business lines	<ul style="list-style-type: none"> □ Aviva's sale of its interests in Unicorp Vida and Aviva Vida y Pensiones (May 2017) □ Old Mutual's disposal of its 26 per cent interest in Kotak Mahindra Old Mutual Life Insurance to joint venture partner Kotak Mahindra Bank (April 2017) □ Barclays' sale of its Spanish non-strategic insurance business (March 2017) □ AIG's sale of its Latin American and CEE businesses (October 2016)

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