Banking sector suffers ‘deal fatigue’ as Q1 M&A activity dries up

Article

The news: The volume and total value of global M&A deals in banking declined sharply for Q1, according to a KPMG report.

By the numbers: The report blamed the decline on the Omicron variant, surging inflation, expected interest rate hikes, and Russia’s invasion of Ukraine.

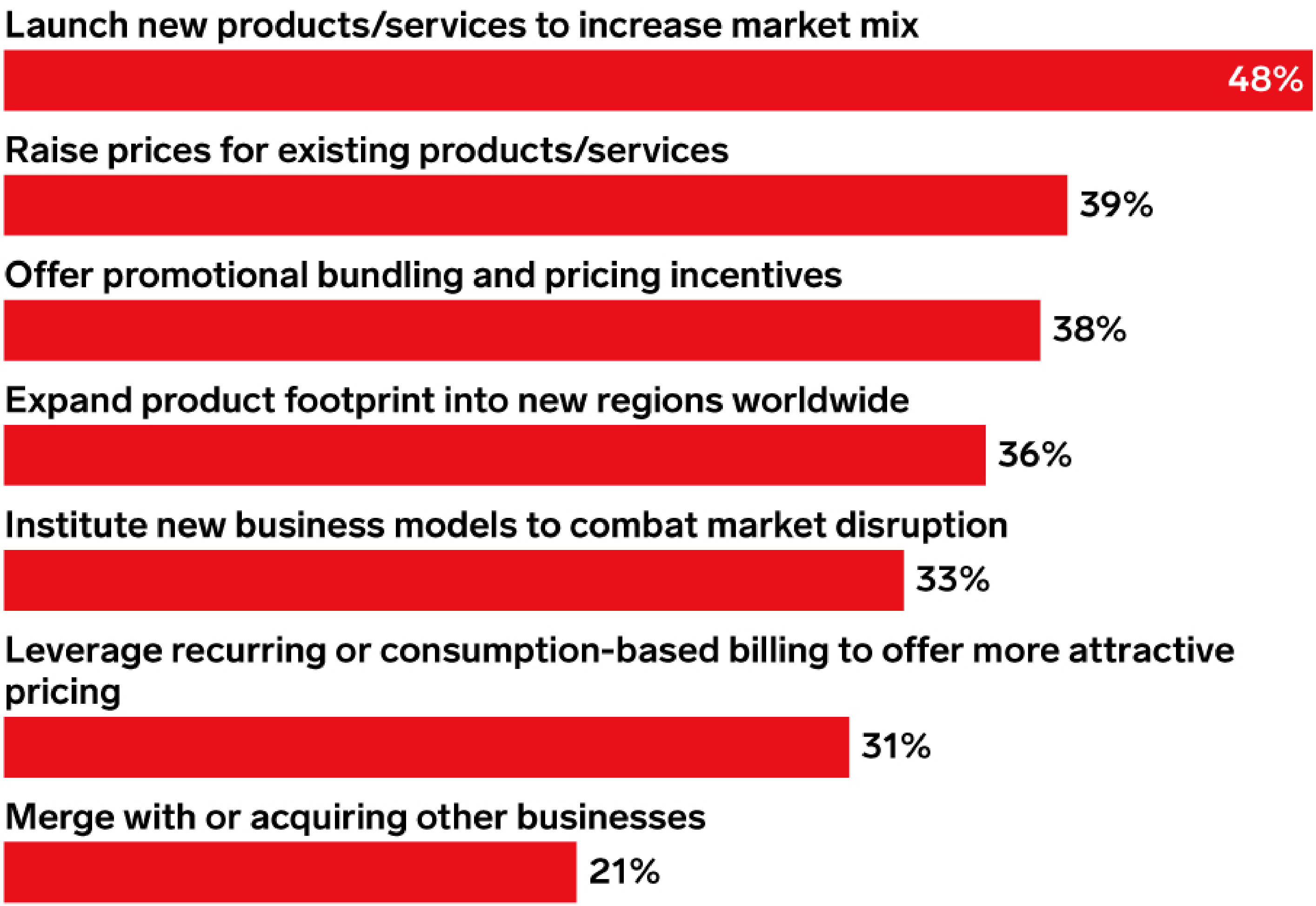
- The **number of M&A deals in banking for Q1 fell more than 30%** quarter-over-quarter (QoQ) to 91.
- The total **value of deals was $16.9 billion**, a drop of over 47% QoQ.
- **Fewer and smaller megadeals** mainly drove the slump in M&A activity, according to KPMG. A rush to close transactions before 2022 also comparatively hurt Q1 figures.
- The decline in deals mirrors a **general drop in funding:** Global fintech funding fell 18% QoQ to $28.8 billion for Q1—the largest percentage drop since 2018, per CB Insights data.

What's next? Deals could bounce back as pent-up demand and confidence within the industry picks up. This is the view KPMG takes: It said **strategic trends in banking were robust and would help M&A to grow.** Three major trends may help drive an increase in deals:

1. **Fintechs:** Banks are looking to bolster growth by buying up smaller innovative players that bring them new capabilities. US neobank **SoFi's** purchase of cloud-based core-banking provider **Technisys** for around $1.1 billion was one of the quarter's biggest buyouts.
2. **Regional and community banks:** They're expanding through acquisitions, mostly seeking economies of scale. Louisiana-based **Origin Bancorp's** purchase of Texan **BT Holdings** for around $313.5 million is a recent example.
3. **Pressure on margins:** Heightened competition from neobanks, rising compliance costs, higher technological expenditure, and efforts to meet environmental, social, and corporate governance (ESG) commitments are piling on costs. Purchasing smaller, highly specialized fintechs or regtechs saves banks the time, effort, and cost of creating solutions in house.

Strategies Their Company Will Undertake to Drive Revenue Growth in 2022 According to US Finance Decision-Makers

% of respondents



Note: top 3 responses
Source: BillingPlatform, "2022 Survey Trends In Finance," Feb 10, 2022

273961 eMarketer | InsiderIntelligence.com

The big takeaway: In spite of pent-up demand, a harder stance in the US by regulators will likely limit the speedy approval of the largest M&A deals and banks contemplating megadeals must prepare for greater scrutiny. Separately, we see record-high inflation, a looming energy crisis, and the war in Ukraine continuing to impact dealmakers' confidence. These wider market factors will dictate whether M&A activity can rebound after its slow start in 2022.