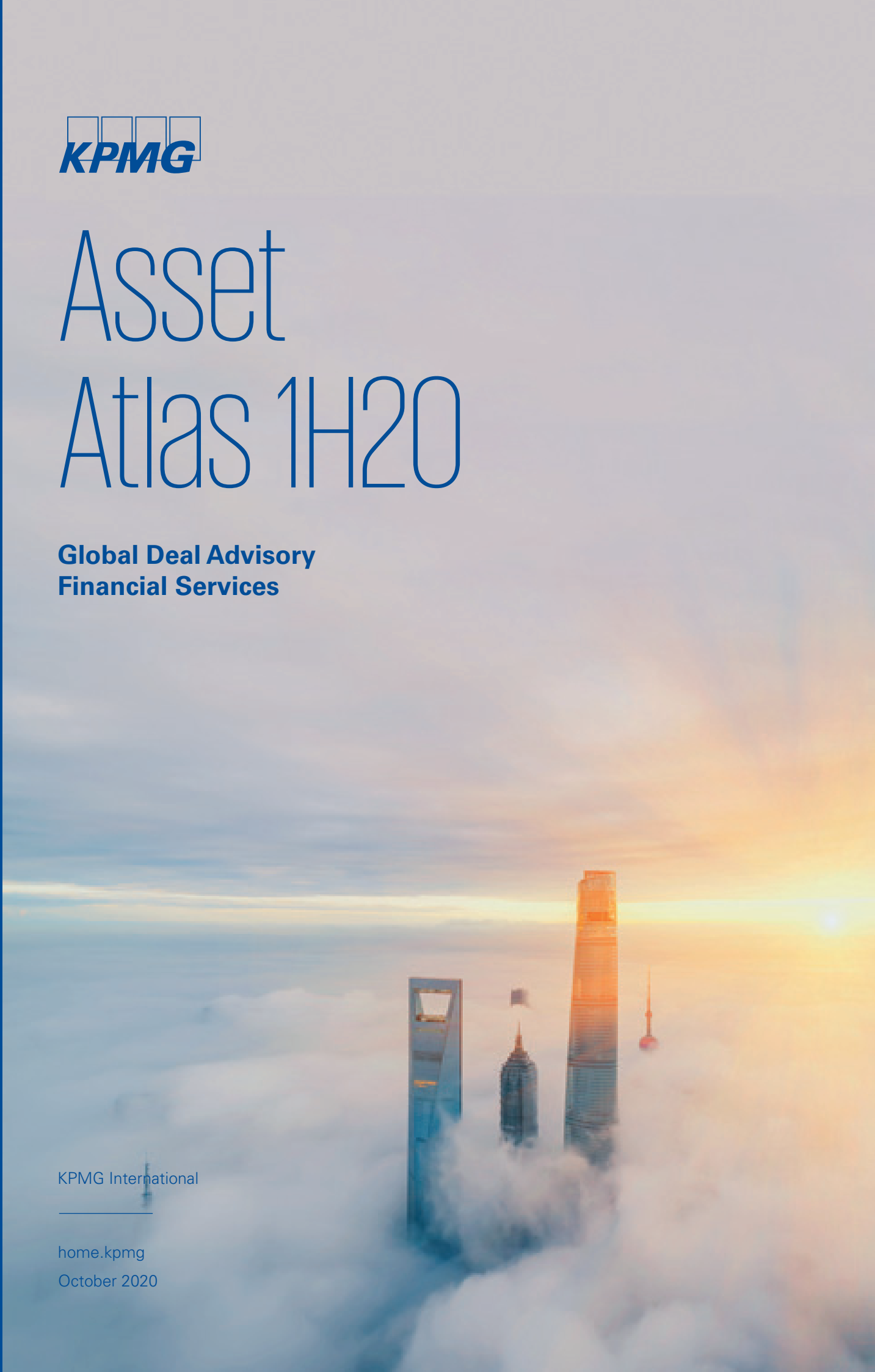
Asset Atlas 1H20

Global Deal Advisory
Financial Services



KPMG International

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Introduction

Welcome to the 27th edition of our Asset Atlas

This bi-annual document prepared by the Global Deal Advisory Financial Services network gives an overview of merger and acquisition trends in the global financial services sector with a detailed analysis of potential opportunities.

We examine M&A trends in various sub-sectors such as banking, insurance, asset management and private equity within financial services for 1H20 while shedding light on recent deal activity. Additionally, we consider available FS opportunities/assets as identified by KPMG across the globe.

I believe it is an essential read for FS professionals and can serve as an effective M&A/business development tool and provides an insightful summary for decision makers across Financial Services in Corporate Development and M&A roles.

Best regards,

Giuseppe Rossano Latorre
Global Financial Services Deal Advisory Lead
KPMG International
T: +39 02 6764 3918
M: +39 348 3055080
E: glatorre@kpmg.it

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Executive summary

In the first half of 2020, the FS deal environment saw a steep decline of 11.5 percent in deal volume compared to 1H19, owing to a global economic slowdown triggered by COVID-19. It's no surprise that M&A volumes have plummeted across all sub-sectors globally as investors reassess deals and financial institutions focus on loan management, capital preservation, and the financial wellbeing of their own organizations. Some later-stage acquisitions and divestitures were completed during the period, while others were put on hold or cancelled due to high volatility in financial markets and uncertainty over business resilience. Overall, global deal value levels plunged by 26.6 percent year-over-year in 1H20, mostly in the banking and asset management sectors. Insurance deal value was lifted with one mega transaction (greater than US$25bn) in Europe.

Amidst market gloom, a v-shaped economic recovery appears unattainable, yet there are signs of light. Resilience of well capitalized financial institutions, the announcement of a few niche high-value deals, the drive for operational efficiency and business continuity management, and the need for digital customer relationships and agile commercial models have all contributed to the emergence of several M&A hotspots.

Key report highlights include:

Still making the rounds: Despite a decline of 31.2 percent in average deal size, 1H20 saw a few mega deals (greater than US$15bn), mainly in the core banking and insurance sectors. The proposed acquisition of Samba Financial Group SJSC by National Commercial Bank SJSC for US$15.6bn (banking) and the proposed merger of Willis Towers Watson PLC with Aon PLC for US$30.1bn (insurance) were two notable transactions.

Global cross-border deals represented 23 percent of the total FS deal volume in H1 2020: Cross-border deals saw a dip of 9.5 percent compared to 1H19, with major deal flow seen from North America (especially the US) to Western Europe (especially the UK and Spain) and to ASPAC (Australia and India).

Significant number of FS potential opportunities available across various markets, mainly in the US, Italy, Australia, India and Indonesia

Passive banking transaction market may pave way for global domestic consolidation: Banking deal volume toppled, with the largest transaction market (the US) hit hard as banks cancelled big ticket deals and shifted their focus to credit quality issues. EMEA saw a surge in deal value owing to two high-value transactions (>US$10 bn). India and China surfaced as the busiest markets in ASPAC. Distressed sale of weaker non-banking finance companies, confidence capital raise in banks, strategic investments by PE in weaker banks were key drivers in India while the local banks in China continued to focus on strengthening their capital position via IPOs as well as attracting new investors through direct investments. Payments did not see any mega deals (>US$10bn) in 1H20; however, B2B M&A generated some activity and global consolidation among payment service providers is now underway with some notable deals doing the rounds. A heightened need for scale and necessity to share massive investments in technology and digitalization are expected to drive domestic banking consolidation globally.

Insurance brokerage keeps sector bubbling: The insurance sector experienced a mild decline in deal volume but a massive increase in value owing to one European insurance mega deal. Insurance brokerage and insurtech surfaced as hot targets for acquirers globally. Deal activity in the Americas was mainly fueled by sector consolidation while an increase in cross-border M&A in the US was propelled by bidders from Bermuda and Japan. In Europe, life insurance, retail insurance brokerage, and bancassurance agreements were key regional targets. Life insurance and regional distribution deals along with growing interest from foreign investors to buy stakes in Asian companies kept the ASPAC deal market resilient. Moreover, the global run-off market is heating up, especially for non-life insurance assets. With COVID-19, the capital base of insurers has been adversely impacted thereby providing further impetus to exit aging liabilities.

Desire for scale fosters further consolidation in asset management: Asset managers are experiencing costs pressures due in part to increased regulation — a trend that has negatively impacted profit margins. Investor preference for passive investments, institutional investor preference to deal with fewer firms and limited organic growth opportunities continued to drive consolidation in the industry, especially amongst small and medium size asset managers. In the US, the acquisition of RIA firms catalyzed M&A activity. Europe saw smaller deals involving mergers and partnerships, along with an increased focus on ESG investing. In ASPAC, China, Australia and South Korea were the busiest markets.

No end in sight for private equity players: COVID-19 compelled PE players, who enjoy healthy liquidity, to first assess their portfolio companies and then seek targets. Globally today, the payments sector is one of the most attractive segments for such buyers. PE firms in the US turned to investments such as add-ons, PIPEs, carve-outs, and distressed-for-control transactions, while European PE firms stepped up to rescue the troubled companies they own by providing emergency loans or buying back debt. Potential targets such as non-banking financial institutions, insurance brokerage, troubled/weaker banks, payments, lease finance, non-performing loans (NPLs), mutual fund businesses and index businesses continue to garner PE interest in ASPAC.

In 2H20, global financial institutions may temporarily put M&A on hold, waiting for a clearer picture on global economic scenarios and the anticipated development of a COVID-19 vaccine. From then on, M&A activity will likely be driven by accelerated global consolidation within the banking and asset management sectors, an increase in rescue and restructuring deals, new NPL transaction markets, distressed asset opportunities, an attractive insurtech market, digital solutions and acquisitions of challenged fintech players by traditional incumbents — especially those with high burn-rates and low revenue levels.

> "As the initial wave of COVID-19 crests in many major economies, specialized investors are looking for opportunities in less impacted sectors.
>
> Strategic investors and private equity firms are showing an opportunistic approach to acquisitions — with a keen eye to mid-sized firms requiring access to liquidity and capital."
>
> **Giuseppe Rossano Latorre**
> Global Financial Services,
> Deal Advisory Lead
> KPMG International

Global financial services M&A 1H20

Overview

Global deal activity in the FS sector tumbled in 1H20 seeing a decline of 11.5 percent and 26.6 percent, respectively, in volume and value compared to 1H19. Asset management saw the largest dip in volume (15.7 percent) thanks to general capital market volatility. In terms of value, insurance in particular saw a significant spike (273.6 percent), driven primarily by one mega deal in Europe while activity in the banking and asset management sectors remained subdued. The dip is attributed to weakening investor sentiment caused by COVID-19 resulting in delay, renegotiation or termination of deals.

Domestic deals contributed 76 percent of total FS deals in 1H20. Mega domestic transactions (>US$ 15bn) were witnessed in 1H20 mainly in banking and insurance. Though overall cross-border activity declined, buoyancy in intercontinental deal activity was seen with a 2.6 percent increase in volume with active bidders mainly from the US (#70), the UK (#18), Australia (#8) and the Cayman Islands (#6).

While PE firms reevaluate the business landscape and focus on the health of their current portfolio companies, global PE deal activity is decelerating, down by 36 percent in 1H20 compared to 1H19. Payments, leasing and financing, and asset/wealth management were the most targeted sub-sectors in 1H20. Private equity investors are now in a familiar position, sitting on an abundance of dry powder which is expected to fuel PE deal making going forward.

	Global FS deals[1] (volume announced)	**Global value of FS deals announced[2]** (US$ billion)	**Non-domestic/Cross-border FS deals[3]** (percent of total FS deals)	**Global PE deals in FS[4]** (percent of total FS deals)
2015	3,640	399	20 %	15 %
2017	3,944	366	21 %	22 %
2019	3,869	437	22 %	18 %
1H20	1,657	172	23 %	24 %
1H19[5]	1,872	234	21 %	17 %

Notes:
(1) Deals announced include pending and completed deals.
(2) Deal value represents total value of announced transactions where value is disclosed publicly.
(3) Non-domestic banking deals include regional and inter-continental (excludes domestic) deals.
(4) PE deals have been extracted from Mergermarket database. The database considers deals above US$5 million in deal value.
(5) 1H19 figures would vary from previous edition, as the database keeps updating statistics.

Source: Thomson ONE, Mergermarket

Top financial services deals

Among the top 15 FS deals for 1H20, banking continued to dominate the overall deal landscape, accounting for 67 percent of top transactions. Insurance sector deals accounted for 27 percent while asset management accounted for 6 percent.

The average deal size for the top 15 FS deals was approximately US$7.6 bn in 1H20 — mega deals were present in spite of the COVID-19 pandemic with four high-value transactions announced (value >= US$10 bn) in banking and insurance. Domestic deals remained prevalent with 80 percent of the largest deals while cross-border transactions were more subdued, accounting for 20 percent of large transactions during the period. Merger/consolidation remained a key deal rationale. On the buy-side, bidders from North America (particularly, the US) and Asia (particularly, China) remained active.

Top 15 FS deals[1] announced in 1H20

#	Target company	Target sector	Target country	Bidder company	Bidder country	Value US$ mn
1	Willis Towers Watson PLC[2]	Insurance		Aon PLC[2]		30,141
2	Samba Financial Group SJSC	Banking		National Commercial Bank SJSC		15,631
3	E*TRADE Financial Corp	Banking		Morgan Stanley		13,137
4	Ahli United Bank BSC	Banking		Kuwait Finance House		9,796
5	Credit Karma Inc	Banking		Intuit Inc		7,100
6	Bank of Jinzhou-Credit assets	Banking		Beijing Chengfang Huida Enterprise		6,354
7	China Everbright Bank Co. Ltd.	Banking		China Everbright Group Ltd		5,394
8	Plaid Inc	Banking		Visa Inc		5,300
9	UBI Banca SpA	Banking		Intesa Sanpaolo Spa		4,773
10	Legg Mason Inc	Asset management		Franklin Resources Inc		4,500
11	CenterState Bank Corp	Banking		South State Corp		3,220
12	FGL Holdings	Insurance		Fidelity National Financial		2,843
13	Global Blue SA	Banking		Far Point Acquisition Corporation		2,564
14	Jackson National Life Insurance (Reinsurance Portfolio)	Insurance		Athene Holding Ltd		1,932
15	Prudential Life Insurance Company of Korea Ltd (Prudential Korea)	Insurance		KB Financial Group Inc		1,871

Cross-border deals

Notes: (1) Payment deals are included in banking and fintech deals are included across sectors (2) Aon PLC and Willis Towers Watson both are US listed entities, with US as their principal market. For analysis perspective, the deal has been considered as a European transaction as both the entities are UK headquartered. The deal can also be considered as a US market deal.

Source: Thomson ONE

Deal type

Top five active transaction markets[1] in 1H20

The US, China, the UK and India remained the largest transaction markets in 1H20, similar to 1H19. They were joined by Canada, however, deal volume remained relatively flat for the nation compared to last year.

US	China	UK	India	Canada
Volume #578	Volume #128	Volume #101	Volume #84	Volume #60
Value US$52.4bn	Value US$20.5bn	Value US$33.2bn	Value US$4.7bn	Value US$54.9bn

Overview of the top cross-border and private equity[2] deals in 1H20

Cross-border deal activity was subdued due to travel restrictions which impacted buyer/seller interactions. Moreover, unlike 1H19, PE deal activity cooled due to tightening credit availability and the widening perception of the value gap between investors and business owners. High-value transactions were scarce in 1H20 with even large transactions topping out at only US$1-2 billion. In 1H20, alternative strategies such as joint ventures and distressed debt grew in popularity. Opportunistic investing will likely fuel deal volume in the second half of 2020.

Cross-border deals

1. **Ahli United Bank BSC**
   Acquirer: Kuwait Finance House
   US$9.8bn
2. **Global Blue SA**
   Acquirer: Far Point Acquisition
   US$2.6bn
3. **Jackson National Life Insurance (Re-insurance)**
   Acquirer: Athene Holding
   US$1.9bn
4. **eNett International**
   Acquirer: WEX Inc.
   US$1.7bn
5. **Colonial First State Investments**
   Acquirer: KKR
   US$1.1bn

Private equity deals

1. **IndoStar Capital Finance**
   Acquirer: Brookfield Business Partners
   US$1.5bn
2. **Financiere CEP SAS**
   Acquirer: Bridgepoint Advisers
   US$1.4bn
3. **NIBC Bank N.V. (100%)**
   Acquirer: Blackstone Group L.P.
   US$1.2bn[3]
4. **Colonial First State Investments**
   Acquirer: KKR
   US$1.1bn
5. **AmeriLife Group**
   Acquirer: Thomas H. Lee Partners, Cannae Holdings
   US$1.0bn

Notes:
(1) Active transaction market refers to the top 5 targeted nations basis deal volume. Deal value represents total value of announced transactions where value is disclosed publicly
(2) PE deals have been extracted from Mergermarket database. The database considers deals above US$5 million in deal value.
(3) Conversion rate considered for 13th July i.e. 1 Euro = 1.13038 US$

Source: Thomson ONE, Mergermarket

Potential assets

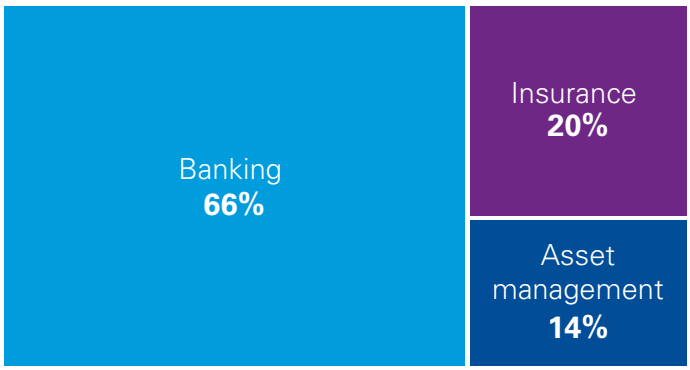
Overview of total FS potential assets[1] via sub-sectors, regions and markets

Total FS potential assets (approx. 500) as at June 2020

— Approximately 66 percent of total potential assets relate to the banking sector followed by insurance (20 percent) and asset management (14 percent).

— Europe boasts the highest potential FS assets available on market (46.4 percent).

— Markets with attractive and relatively high volume of available assets include the US, Italy, Australia, India and Indonesia.



Europe

Countries	Banking	Insurance	AM[2]
Belgium			
CEE[3]			
Denmark			
France			
Germany			
Greece			
Iceland			
Italy			
Luxembourg			
Netherlands			
Portugal			
Russia			
Serbia & Montenegro			
Spain			
Switzerland			
Turkey			
Ukraine			
UK			

Asia-Pacific

Countries/ regions	Banking	Insurance	AM[2]
Australia			
Mainland China/Hong Kong SAR			
India			
Indonesia			
Japan			
Kazakhstan			
Singapore			
Thailand			
Uzbekistan			

Middle East and Africa

Countries	Banking	Insurance	AM[2]
Botswana			
Kenya			
Nigeria			
South Africa			
Zambia			
Zimbabwe			

Opportunities as at June 2020

- High
- Medium
- Low
- Very low
- No assets captured

Americas

Countries	Banking	Insurance	AM[2]
Chile			
Colombia			
US			

Notes: (1) In certain countries, potential assets also include IPOs, companies looking to raise capital and minority stakes sale (2) AM refers to asset management (3) CEE includes Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia

Source: Potential assets data shared by KPMG country coordinators

Sector insights
Banking

Deal statistics and trends

During 1H20, banking deal activity saw a year-over-year decline in both deal volume and value by 11.5 percent and 44.2 percent, respectively, due to the impact of COVID-19. Though deal activity remained subdued overall, the US (#250), India (#67), China (#50), Italy (#30) and UK (#30) remained attractive target markets. COVID-19 generated significant instability and high volatility in global capital markets resulting in poor valuations, liquidity shocks, rising NPLs and related provisions which worsened capital strength and adversely impacted the banking transaction pipeline.

In the Americas, particularly in the US, deal activity fell to its lowest levels since the Great Recession. The year started off strongly with the proposed acquisition of E*TRADE Financial Corp. by Morgan Stanley for US$13.1bn – even as big ticket deals were called off with banks shifting focus from M&A to credit quality issues and operations. The FED imposed new restrictions after poor annual stress testing results for several banks requiring some to suspend share buybacks, cap dividend payments and adding to ongoing industry scrutiny. Though M&A activity in the banking sector remained subdued in 1H20, the outlook remains uncertain. In LATAM, deal count dried up by 30 percent in 1H20; valuation revisions for existing deals are expected to continue.

In the EMEA region, deal volume dipped by 17.2 percent while value increased by 137.4 percent mainly due to few high-value transactions seen in 1H20. The region saw one large value (>US$15 bn) domestic deal — the proposed acquisition of Samba Financial Group by National Commercial Bank for US$15.6 bn (Saudi Arabia). There was one large cross-border transaction involving the proposed acquisition of Ahli United Bank BSC (Bahrain) by Kuwait Finance House (Kuwait) for US$9.8 bn while deal activity remained subdued in major economies like the UK, Germany, Italy and France. In Spain, a wave of consolidation in the banking industry is expected with the EUR 8.3bn merger between Caixa and Bankia, resulting in the largest bank in the country — kicking off the process.

In ASPAC, deal activity was resilient both in terms of value (up by 11.5 percent) and volume (up by 2.3 percent). India has become the busiest market for M&A in Asia followed by China. Distress was a key driver for M&A in India along with confidence capital raise in banks, distressed sale of weaker non-banking finance companies and strategic investments by PE in weaker banks. In China, the local banks continued to look at strengthening their capital position via IPOs as well as attracting new investors through direct investments.

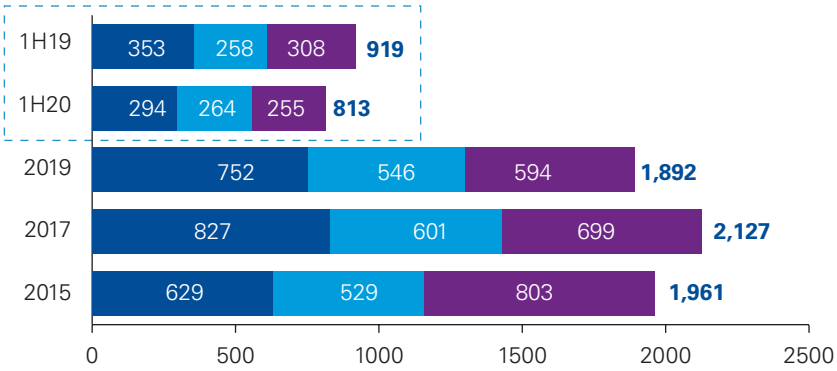
Lastly, the payments sector did not see any high value deals (>US$10 bn) during the period. B2B transactions in the payments space kept deal activity buoyant. In 1H20, investors in the payments space focused on late-stage companies, a trend that reflected investment patterns more broadly given the uncertainty related to COVID-19. M&A activity could see a surge in 2H20 as investors or companies that have built up their cash reserves hunt for bargains.

Number of deals announced (#)

-11.5%

Americas: -16.7%
ASPAC: 2.3%
EMEA: -17.2%

Decrease in the number of transactions compared to 1H19

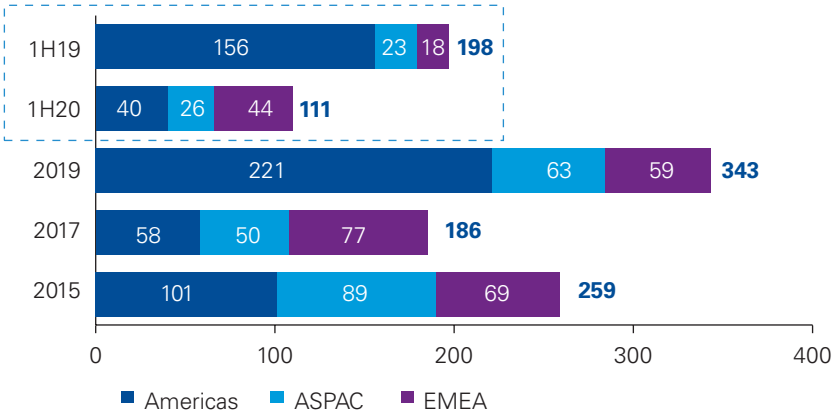


Value of deals announced (US$ billion)

-44.2%

Americas: -74.1%
ASPAC: 11.5%
EMEA: 137.4%

Decrease in the total disclosed value of transactions compared to 1H19



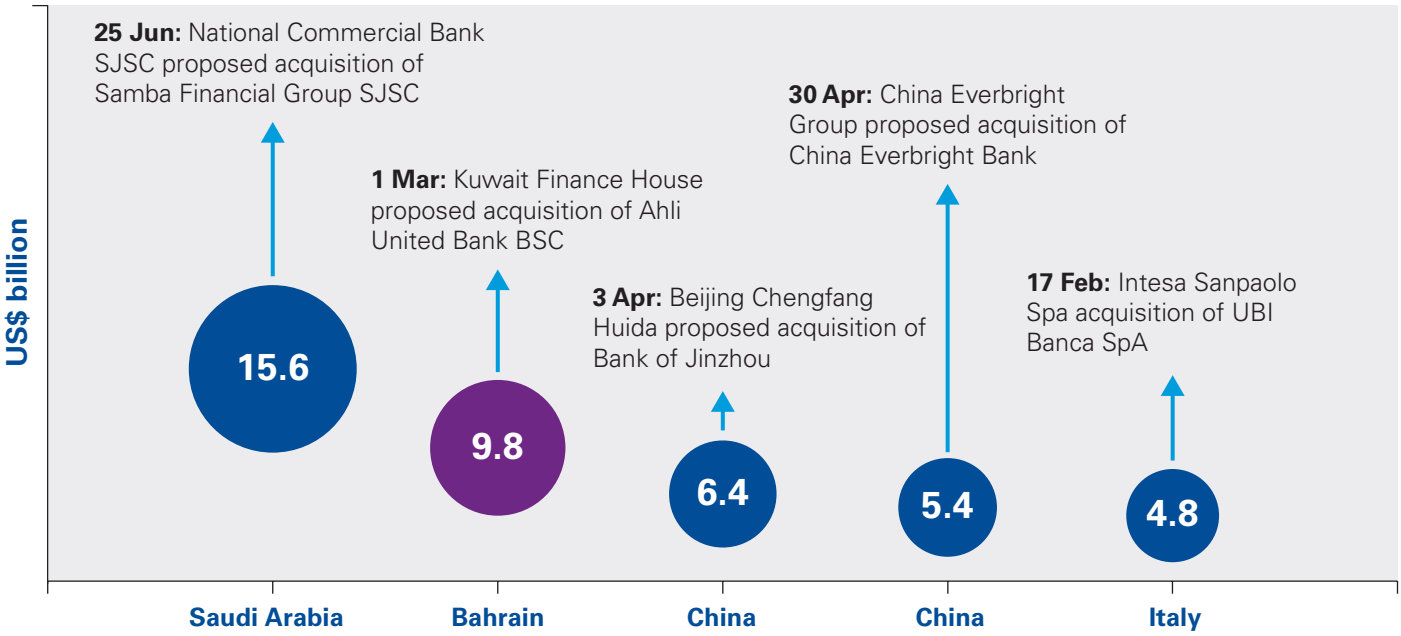
Note: Banking deals include payments deals as well

Source: KPMG analysis, Thomson ONE, B2B FinTech Sees M&A Boom — Pymnts.com; KPMG's Pulse of Fintech report 1H20

Top deals and corridors

Top 5 core banking (excluding fintech/payment deals) transactions

One large cross-border deal and one large domestic transaction (>US$10 bn) were among the top 5 deals in the core banking sector in 1H20.



Note: Banking deals include payments deals as well | Cross-border deals ●

Top banking deal corridors basis deal volume

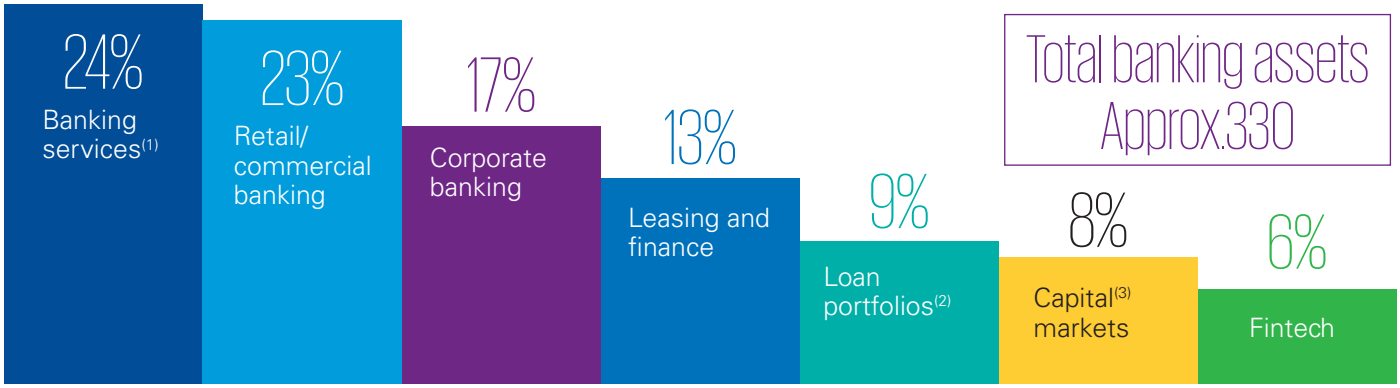
For international transactions, the US remains active especially in the ASPAC and Western Europe regions. At the regional level, ASPAC remains a hotspot with active bidders from S.E. Asia and Hong Kong SAR.

Source: KPMG analysis, Thomson ONE

Potential assets analysis

Banking potential assets split by sub-sectors (percent)

About 66 percent of total potential assets relate to the banking sector, making it the most attractive sector compared to insurance and AM in terms of availability of potential assets. Banking services and retail/commercial banking assets comprise of the major proportion among the sub-sector mix (47 percent). Compared to 1H19, we see an uptick in number of assets in leasing and finance, and loan portfolio sub-sectors.



Note:
Potential assets includes IPOs and companies looking to raise capital and minority stakes sale
Percentage figures indicate concentration of assets in each sub-sector. Absolute figures will vary as many assets have multiple sub-sector classification. Thus, there is an overlap.
(1) Banking services includes payments, factoring, credit cards, etc.
(2) Loan portfolios includes non core assets of banking operations, RE loan portfolio, commercial mortgages, NPLs, debt collection, etc.
(3) Capital markets includes investment banking, securities and commodities brokerage, stock exchanges, etc.

Banking potential assets split by region

At a regional level, Rest of Europe, Western Europe, and Asia Pacific regions still boast the highest concentration of available assets. In the Rest of Europe, banking services, retail banking and corporate banking remain most prominent, while assets pertaining to leasing and finance are largely available in Asia Pacific. Furthermore, Western Europe may see a spike in the sale of loan portfolio assets. Countries with maximum assets available are the US, Italy, Australia, and Indonesia.

Sub-sectors(4)	North America(5)	Latin America(6)	Western Europe(7)	Rest of Europe(8)	Middle East and Africa(9)	Asia Pacific(10)
Banking services(1)						
Retail banking						
Corporate banking						
Leasing & financing						
Loan portfolios(2)						
Capital markets(3)						
Fintech(11)						

Opportunities as at June 2020

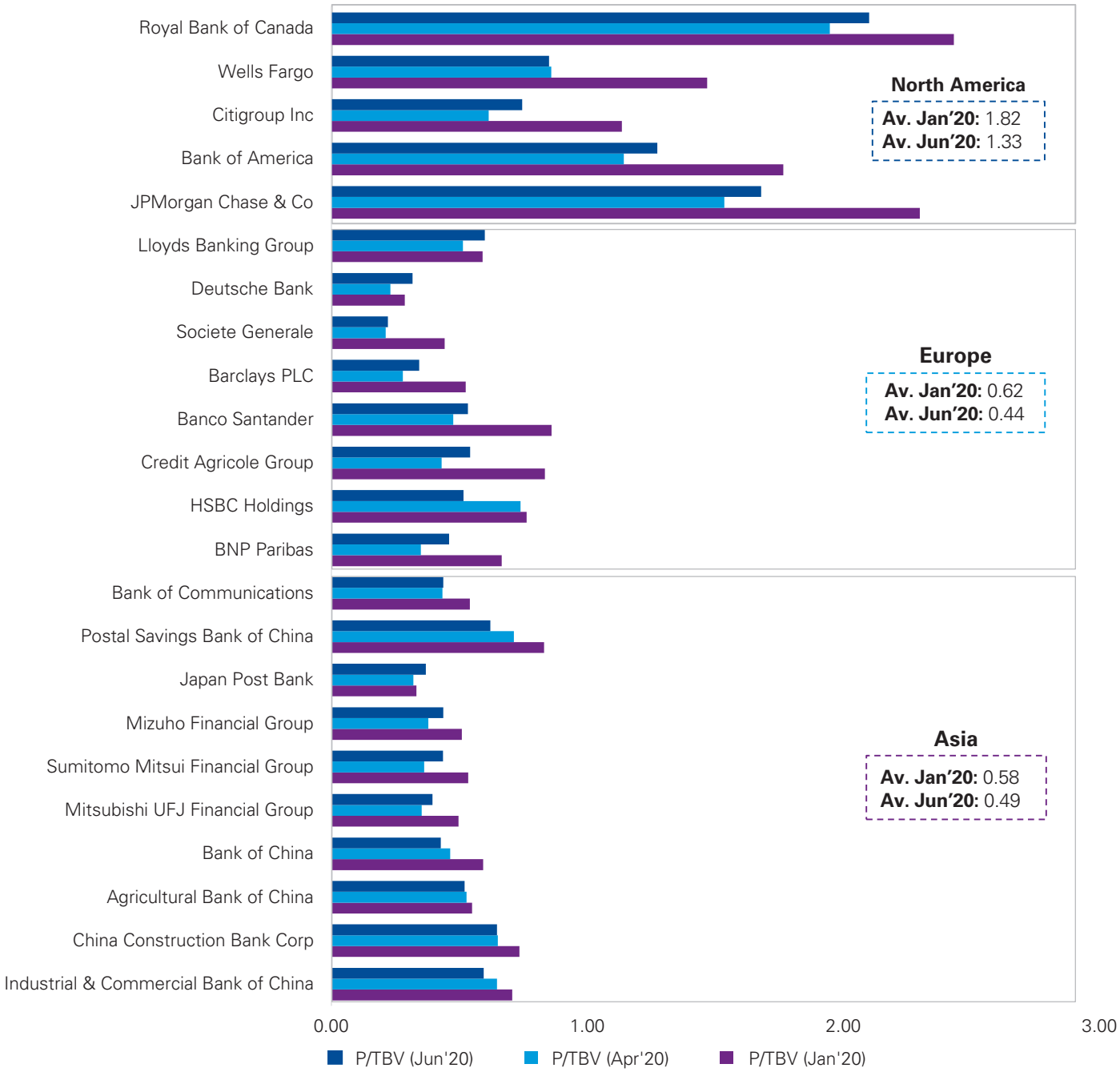
High | Medium | Low | Very low | No assets captured

Note:
(4) There is an overlap in sub-classification of certain assets. Those assets have been split into multiple categories. Therefore, the above chart depicts approximate values i.e. it portrays level of concentration of assets into different subsectors.
(5) North America: US (6) Latin America: Chile (7) Western Europe: Belgium, France, Germany, Italy, Netherlands, Portugal, Spain, UK
(8) Rest of Europe: Bulgaria, Denmark, Hungary, Iceland, Latvia, Lithuania, Poland, Romania, Russia, Serbia & Montenegro, Slovakia, Slovenia, Turkey, Ukraine (9) Middle East and Africa: Botswana, Kenya, Nigeria, South Africa, Zambia, Zimbabwe (10) Asia-Pacific: Australia, mainland China/ Hong Kong SAR, India, Indonesia, Japan, Kazakhstan, Singapore, Thailand, Uzbekistan (11) Full Fintech results in KPMG International's Pulse of Fintech 1H20

P/NAV of major banks

Major banks basis asset size — average monthly Price to tangible book value (P/TBV or P/NAV)

P/NAV multiple for major global banks (basis asset size) fell from average 0.86x in Jan'20 to 0.65x in Jun' 20. At the regional level, North American banks traded at P/NAV equal to an average 1.33x, while Asian and European banks traded at deep discount levels of 0.44x and 0.49x respectively, in Jun'20.



Note: Data for banks — China Development Bank, and Groupe BPCE not available for the defined period on Capital IQ. Thus, not included in the analysis.

Source: S&P Capital IQ

Sector insights
Insurance

Deal statistics and trends

Year-over-year, the insurance sector saw a mild 5.7 percent drop in deal volume compared to 1H19. There was a massive spike of 273.6 percent in deal value, mostly attributed to one mega deal (>US$25bn) in the UK, executed just weeks before the pandemic. The US (#191), the UK (#28), Canada (#16), Italy (#10) and China (#9) remained the most targeted nations. Interestingly, insurance brokerage appeared to be the prime acquisition target for a multitude of buyers (insurers, banks, e-commerce, etc.) capturing ~70 percent of global insurance deals in 1H20 — a trend expected to continue in 2H20.

In the Americas, particularly in the US, insurance deal activity remained buoyant — seeing an increase in both value (up by 135.7 percent) and volume (up by 15.1 percent). Though the market did not see many high value deals, the average deal size trailed around US$419 million in 1H20. Consolidation in the sector was led by large industry players acquiring smaller players for portfolio diversification and new service lines. Moreover, insurance brokerage remained an attractive segment with continued interest from various PE firms. A jump in cross-border activity was also seen during the period prompted mainly by active bidders from Bermuda and Japan.

EMEA deal volume dwindled (down by 24.8 percent) while value rose by 639.6 percent in 1H20. Deal value in the region was lifted by one mega deal in the UK — Aon PLC's* proposed acquisition of Willis Towers Watson for US$30 billion — merging two of the largest insurance brokers globally and signifying massive consolidation in the insurance brokerage sector. Though overall deal volume was subdued elsewhere, deal activity in Italy and Sweden picked up pace; in Italy, the life insurance and brokerage segments drove most of the activity. Similarly, an increase in renewal of bancassurance agreements helped spur activity. In Sweden, retail insurance brokerage deals contributed to an overall positive deal environment.

In the ASPAC region, deal volume (down by 2 percent) and value fell sharply by 33.6 percent, with China (#9), India (#8), Australia (#6) and Japan (#6) being the most active target markets. In China, insurance brokerage and insurtech deals remained prevalent while regional distribution deals proved attractive as insurers look to expand their distribution reach. A number of foreign insurers sought to enter or increase their stake in existing JVs. Strategic deals remained prevalent in the sector in India, while few life insurance deals were seen in Japan. Moreover, Japanese insurers remained active in US M&A markets during the period.

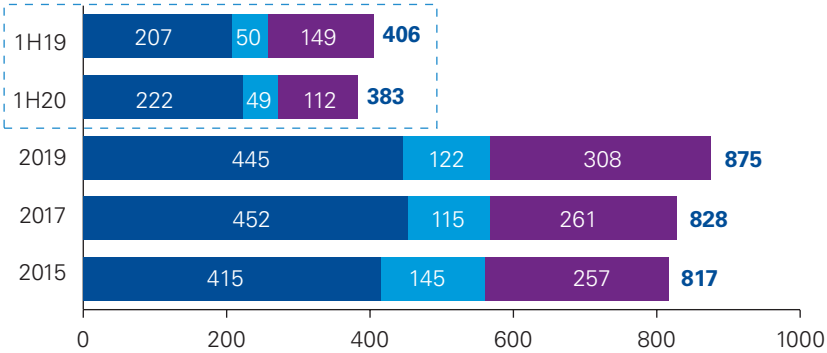
VC investment in insurtech dropped significantly in 1H20. Before COVID-19, the insurtech sector already saw its deal pipeline slowing thanks to frothy valuations and traditional VC firms lacking significant exits outside of a few large acquisitions.

Number of deals announced (#)

-5.7%

Americas: 7.2%
ASPAC: -2.0%
EMEA: -24.8%

Decrease in the number of transactions compared to 1H19

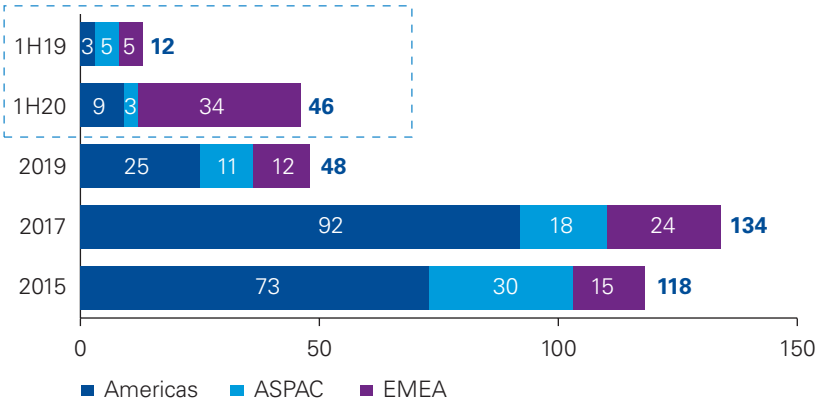


Value of deals announced (US$ billion)

273.6%

Americas: 197.3%
ASPAC: -33.6%
EMEA: 639.6%

Increase in the total disclosed value of transactions compared to 1H19



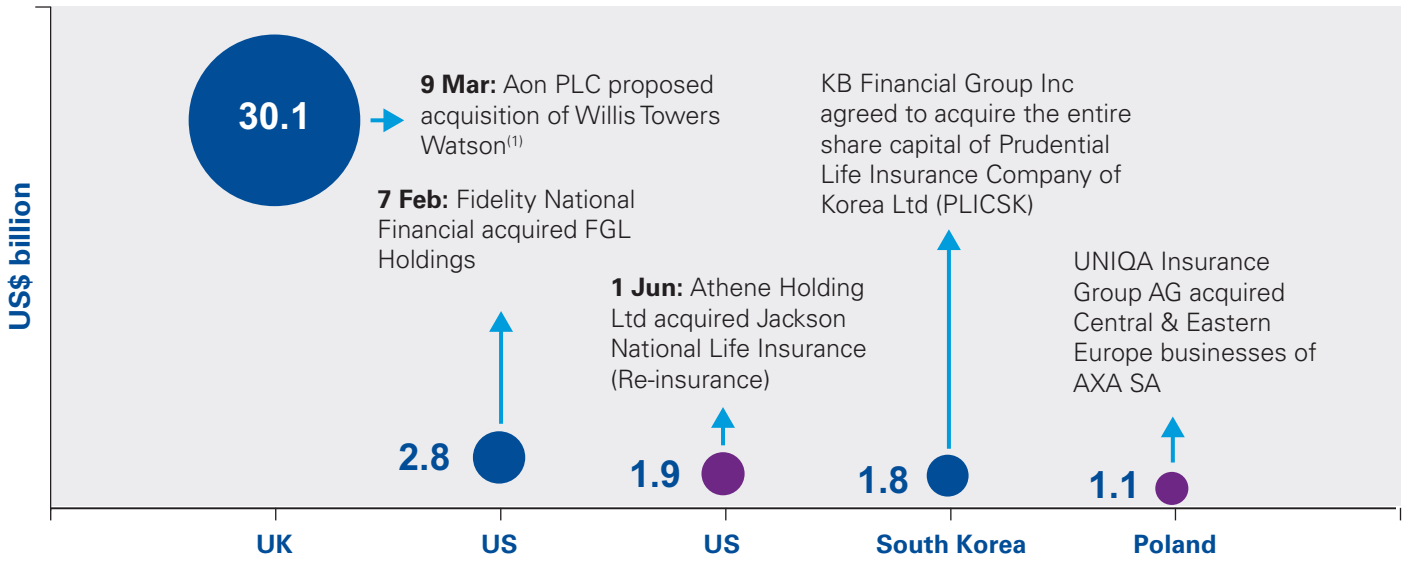
Note: Aon PLC and Willis Towers Watson both are US listed entities, with US as their principal market. For analysis perspective, the deal has been considered as a European transaction as both the entities are UK headquartered. The deal can also be considered as a US market deal.

Source: KPMG analysis, Thomson ONE, Insurance Technology Sector Summary Q1 2020 — GCA, Q1 Insurtech Fundraising Drops 54% on COVID-19 Disruption: Willis Towers Watson — Insurance Journal, KPMG's Pulse of Fintech report 1H20

Top deals and corridors

Top 5 insurance transactions

Among the top 5 deals in the insurance space, three are domestic transactions with two cross-border deals in 1H20. One mega deal transaction (>US$10 bn) was announced during the period.

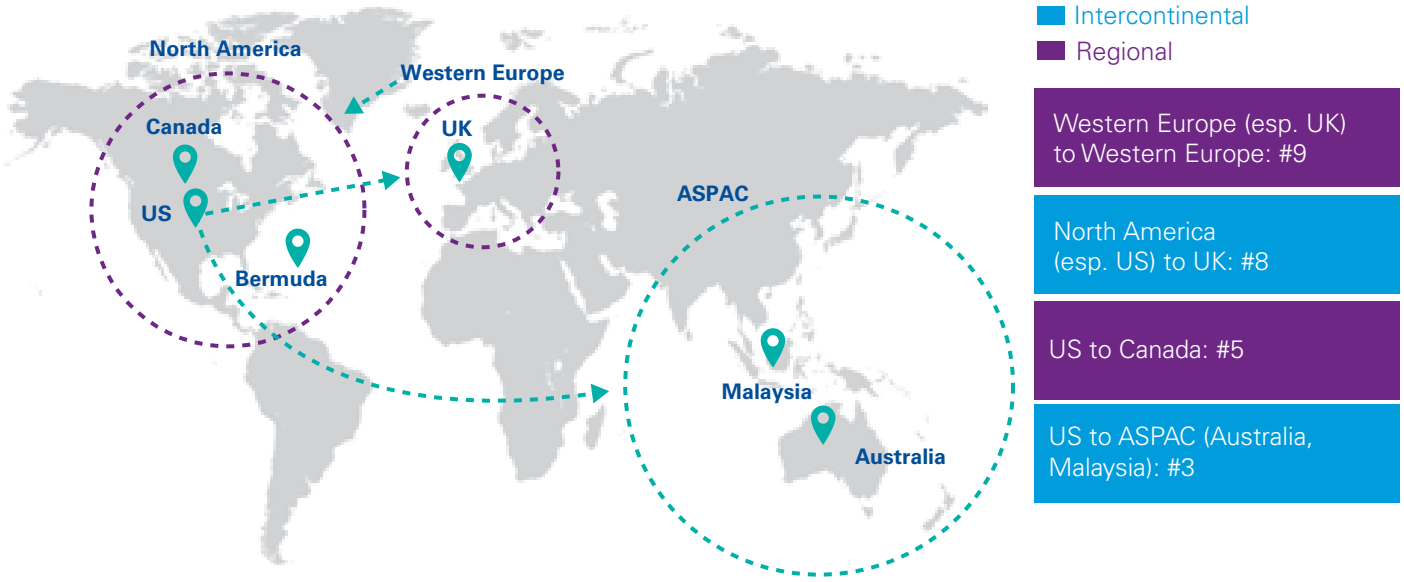


(1) Aon PLC and Willis Towers Watson both are US listed entities, with US as their principal market. For analysis perspective, the deal has been considered as a European transaction as both the entities are UK headquartered. The deal can also be considered as a US market deal.

Note: Cross-border deals ●

Top insurance deal corridors basis deal volume

For international transactions, the US remained particularly acquisitive especially in the UK and ASPAC. At a regional level, insurance transactions were concentrated within Western Europe countries.

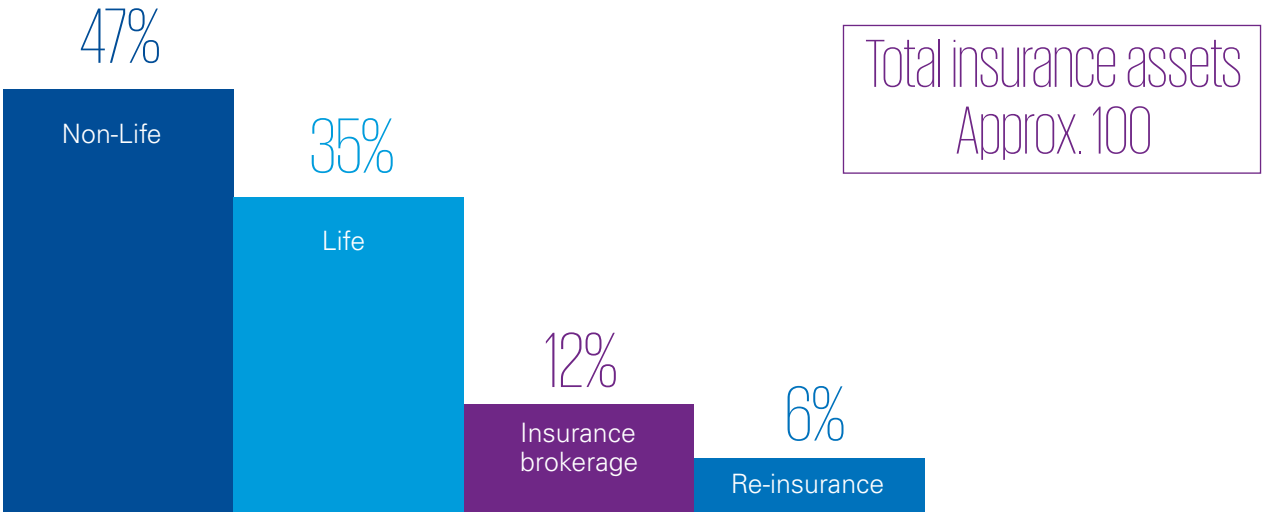


Source: KPMG analysis, Thomson ONE

Potential assets analysis

Insurance potential assets split by sub-sectors (percent)

Non-life assets formed the majority of total insurance assets (47 percent); insurance brokerage and reinsurance remain buoyant with the same proportion of assets seen in 1H19.



Note: Potential assets includes IPOs and companies looking to raise capital and minority stakes sale.

Insurance potential assets split by region

Western Europe represents the maximum concentration of available assets followed by Asia Pacific. Life and non-life assets remain the most prevalent in Western Europe and Asia Pacific, while brokerage is an attractive segment in North America and Western Europe. Countries with maximum assets available are the US, Italy, Australia and France.

Sub-sectors[1]	North America[2]	Latin America[3]	Western Europe[4]	Rest of Europe[5]	Middle East and Africa[6]	Asia Pacific[7]
Non-life						
Life						
Insurance brokerage						
Re-insurance						

Opportunities as at June 2020

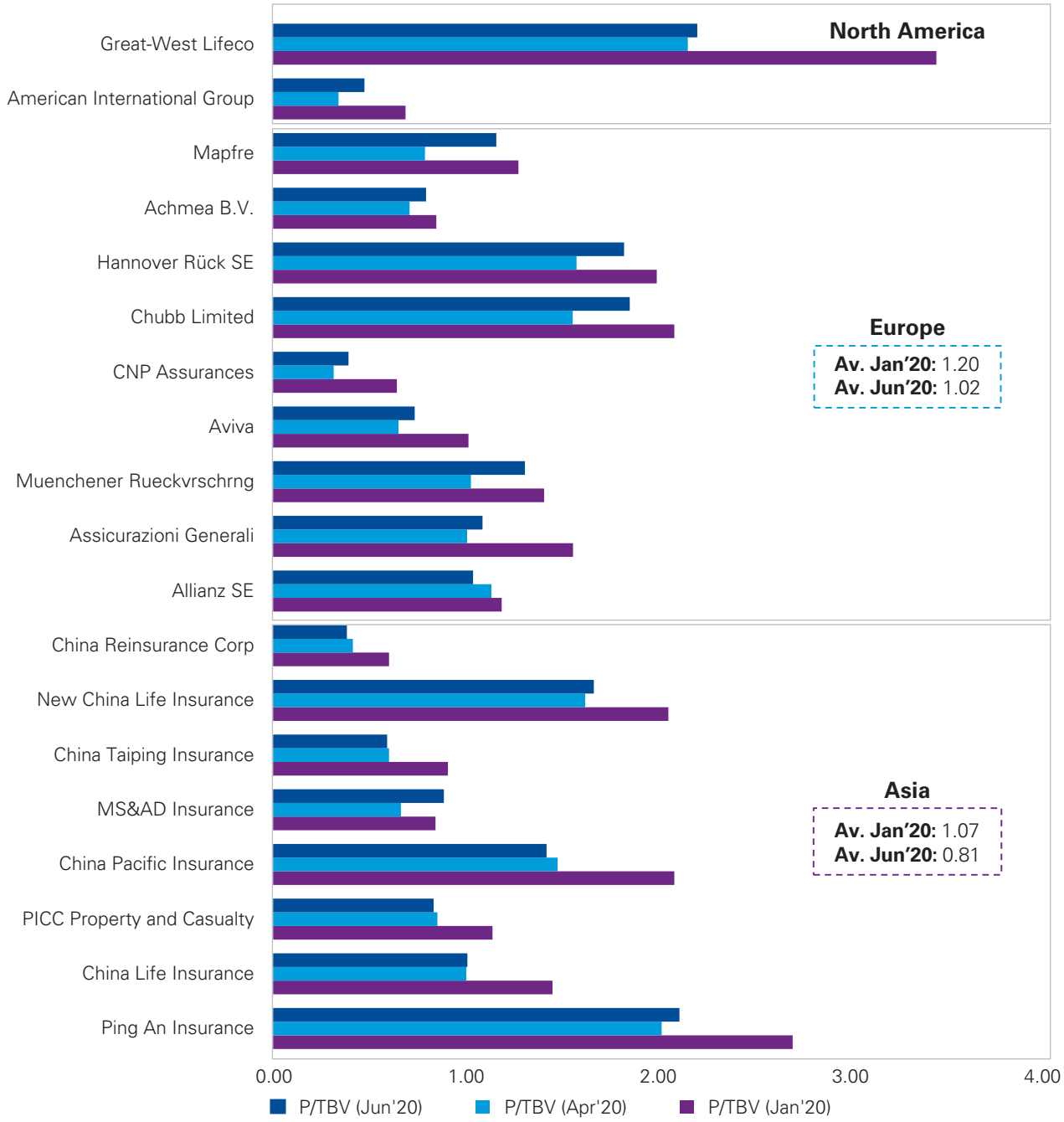
High | Medium | Low | Very low | No assets captured

Note:
(1) There is an overlap in sub-classification of certain assets. Those assets have been split into multiple categories. Therefore, the above chart depicts approximate values i.e. it portrays level of concentration of assets into different subsectors.
(2) North America: US (3) Latin America: Colombia (4) Western Europe: Belgium, France, Germany, Italy, Luxembourg, Portugal, Spain, Switzerland, UK (5) Rest of Europe: Bulgaria, Greece, Latvia, Serbia & Montenegro, Slovakia, Turkey, Romania (6) Middle East and Africa: Kenya, South Africa, Nigeria (7) Asia-Pacific: Australia, mainland China/Hong Kong SAR, India, Indonesia, Thailand

P/NAV of major insurers

Major insurers basis NWPs — average monthly price to tangible book value (P/TBV)

Insurer valuations saw a decline during the period — from an average of 1.47x in Jan'20 to 1.15x in Jun'20. Among the major insurers, Asian insurers were hit hardest while European players traded better at an average of 1.02x in Jun'20.



Note: Insurers — Huaxia Life Insurance, Cathay Life Insurance, Fubon Life Insurance, Covéa Mutual Insurance, Liberty Mutual Holding, and Power Corporation of Canada data not available for the defined period on Capital IQ. Thus, not included in the analysis.

Source: S&P Capital IQ

Sector insights

Asset Management

Deal statistics and trends

The ripple effects of the pandemic depressed deal activity in the asset management space in 1H20, with a year-over-year decline of 15.7 percent in volume and 36 percent in value attributed to uncertain capital markets and increased volatility. The US (#137), China (#69), the UK (#43), and Australia (#24) emerged as the most targeted nations during the period. Trends such as market consolidation favoring smaller deals, consolidation among fund platforms, rigorous fee transparency under MiFID II, a continued shift towards passively traded funds and growing digitization of businesses were the key underlying drivers of M&A.

In the Americas, particularly in the US, deal volume declined by 8.1 percent while deal value tumbled by 12 percent. The nation saw one large deal — the merger of Legg Mason and Franklin Resources for US$4.5billion — which solidified consolidation in the market. The acquisition of large RIA firms by RIA platforms, consolidators and aggregators remained a trend during the period.

Deal volume in Europe plummeted by 20.9 percent while value saw a steep decline of 13.8 percent in 1H20 compared to the same period in 2019 (though major economies like France, Germany and the UK saw a dip in deal count while Luxembourg's deal activity remained stable. Deal volume in Luxembourg remained stable driven by cross border acquisitions of fund servicing platforms by players located in global fund servicing hubs, and by the acquisition of asset managers by players located in neighboring countries. Though fund flows have remained lackluster in the fund management industry, there are plenty of smaller deals happening in the region. Examples include Spain's Banco de Sabadell which agreed to sell its asset management arm to French asset manager Amundi for US$477 million. Meanwhile France's Natixis and La Banque Postale SA signed a deal to merge their fixed income and insurance-related asset management businesses. Partnership agreements are also on rise such as Italian investment bank Mediobanca and US fund manager Russell Investments and their launch of their third private markets fund together in 1H20. A notable trend to watch is the increasing focus on ESG investing by asset managers.

ASPAC's asset management sector remained subdued with a drop in both volume and value by 17.7 percent and 43.6 percent respectively despite an increase in deal activity in June. China (#69), Australia (#24) and South Korea (#16) remained the most attractive deal markets. China's non-performing loan market is being eyed by many global funds while startup founders with IT and Bio backgrounds and a young generation inheriting wealth are emerging as prime targets for wealth managers in South Korea.

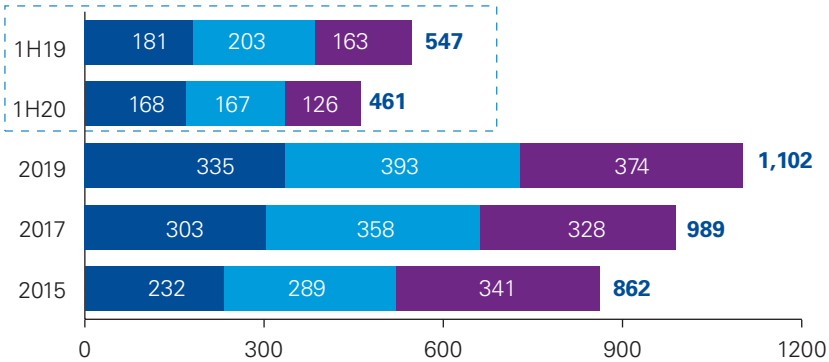
COVID-19 has moved technology to the top of the agenda for many wealth managers given the sudden inability to work traditionally. Very quickly many have had to rethink their business models and find ways to do what they have done for decades using technology. While investment will likely remain soft for the remainder of 2020, the enhanced focus on wealthtech will likely revitalize the space in 2021.

Number of deals announced (#)

-15.7 %

Americas: -7.2 %
ASPAC: -17.7 %
EMEA: -22.7 %

Decrease in the number of transactions compared to 1H19

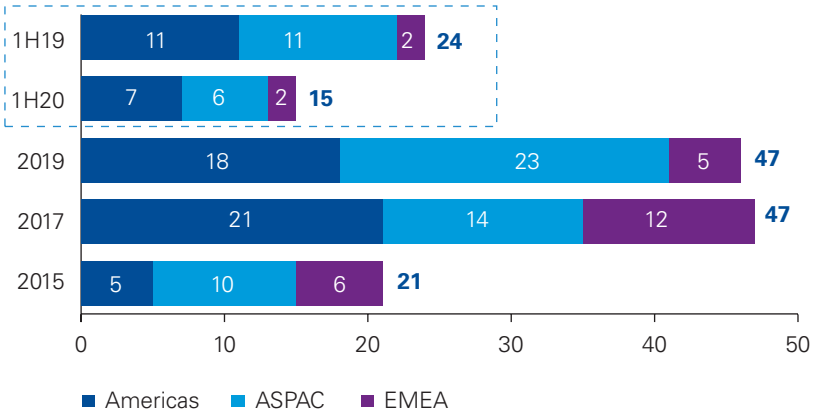


Value of deals announced (US$ billion)

-36.0 %

Americas: -31.0 %
ASPAC: -43.6 %
EMEA: -23.6 %

Decrease in the total disclosed value of transactions compared to 1H19

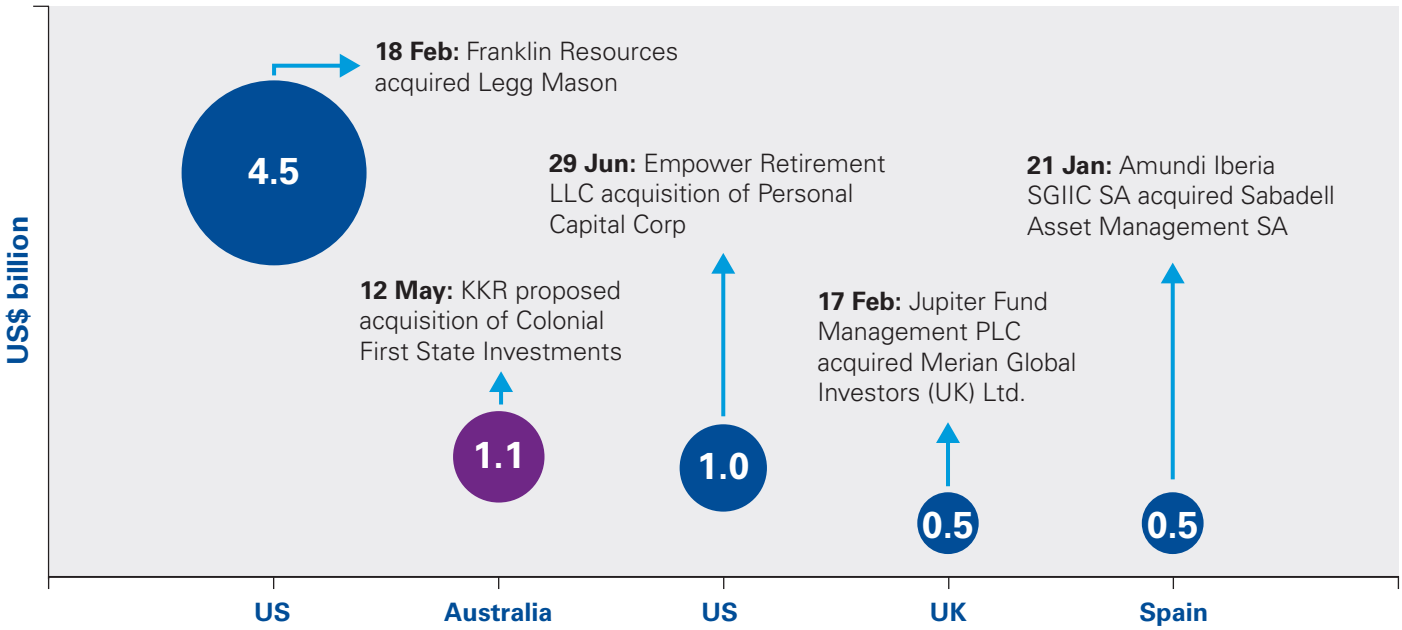


Source: KPMG analysis, Thomson ONE, Traditional assets shunned as managers eye ESG — FT Adviser; Natixis, La Banque Postale to merge asset management units — S&P Global; Are European fund manager M&A deals in line for a covid kick? — Expert Investor; Wealth management industry gains traction in South Korea — International Investment; Financial services M&A experiences shortness of breath in H1 2020 — White & Case. KPMG's Pulse of Fintech 1H20

Top deals and corridors

Top 5 asset management transactions

Among the top 5 deals in asset management, most were domestic transactions with one cross-border deal in 1H20. Similar to 2019, there were no major high value transactions (>US$10 bn) announced during the period.



Note: Cross-border deals ●

Top asset management deal corridors basis deal volume

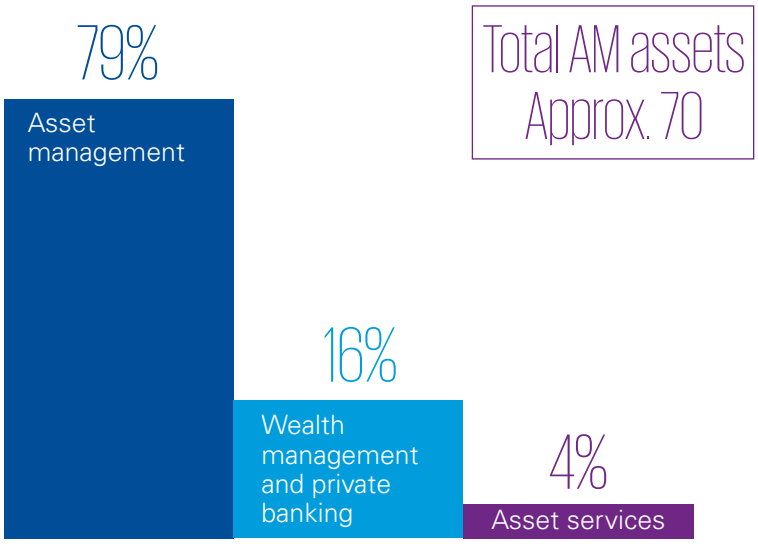
For international transactions, the US remains particularly acquisitive especially in the ASPAC and Western Europe regions. At a regional level, North America and Western Europe proved to be resilient markets.

Source: KPMG analysis, Thomson ONE

Potential assets analysis

Asset management potential assets split by sub-sectors (percent)

Asset management accounts were the highest proportion of targets among asset management assets (79 percent) which saw a jump in the proportion of assets compared to 1H19.



Note: Potential assets includes IPOs and companies looking to raise capital and minority stakes sale.

Asset management potential assets split by region

Western Europe represents the maximum concentration of available assets followed by Asia Pacific. A high proportion of potential asset management targets are seen in Western Europe, Asia Pacific and North America, while wealth management & private banking assets are concentrated largely in Asia Pacific. Countries with maximum available assets include Italy, the US, Australia and India.

Sub-sectors[1]	North America[2]	Latin America[3]	Western Europe[4]	Rest of Europe[5]	Middle East and Africa[6]	Asia Pacific[7]
Asset management						
Wealth management & private banking						
Asset services						

Opportunities as at June 2020

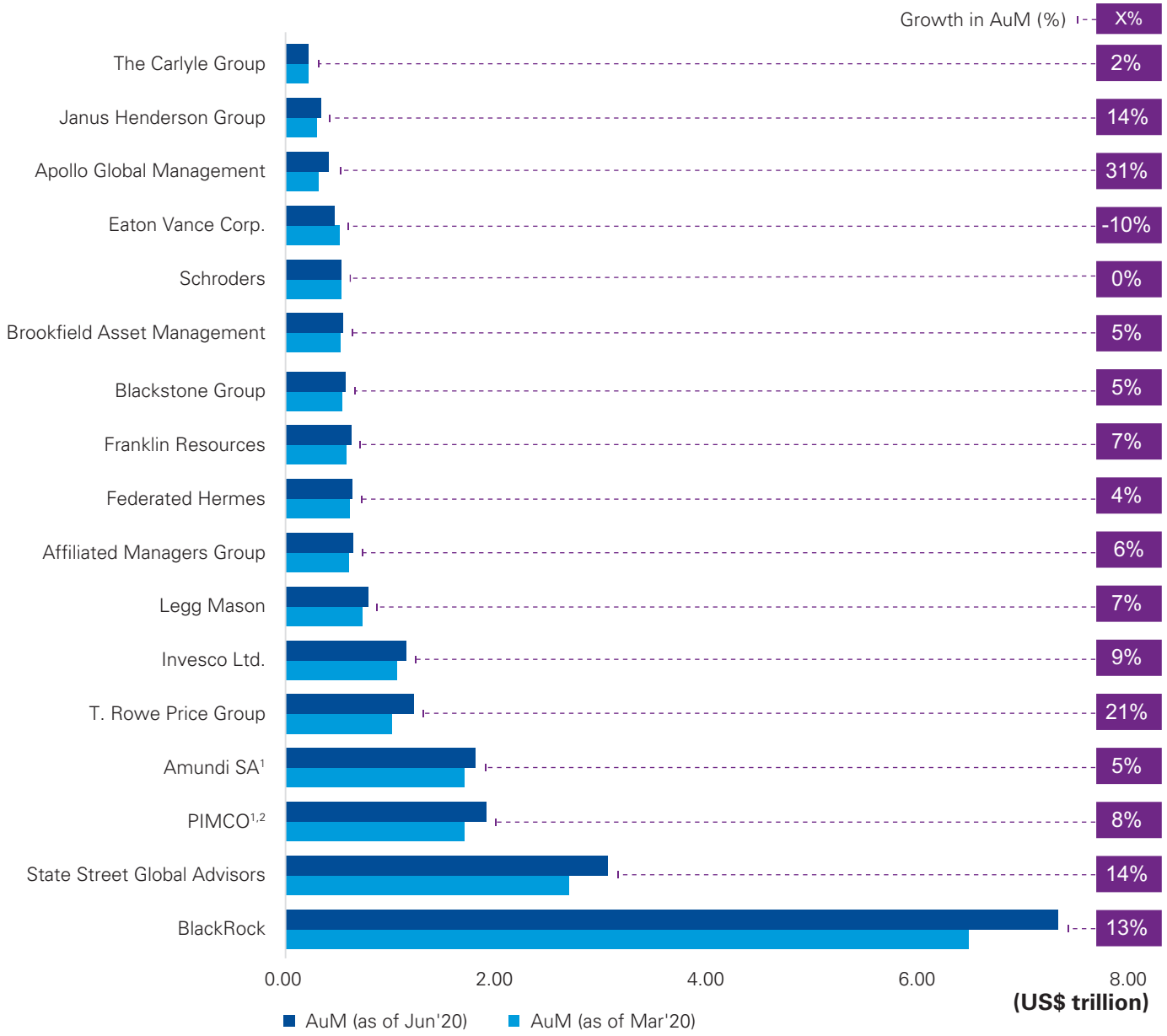
High | Medium | Low | Very low | No assets captured

Note:
(1) There is an overlap in sub-classification of certain assets. Those assets have been split into multiple categories. Therefore, the above chart depicts approximate values i.e. it portrays level of concentration of assets into different subsectors.
(2) North America: US (4) Western Europe: Germany, Italy, Luxembourg, Switzerland, UK
(5) Rest of Europe: Russia (6) Middle East and Africa: Nigeria (7) Asia-Pacific: Australia, mainland China/Hong Kong SAR, Singapore, India, Indonesia

AuM analysis of asset managers

Major asset managers basis assets under management (AuMs)

As of Jun'20, BlackRock remained the largest investment manager, with robust investor confidence seen in fixed income ETFs. The easing of lockdown restrictions, relaxed monetary policy from the FED and the EU's recovery plan have supported equity and credit markets. A large majority (88 percent) of identified managers below saw growth in AuMs over 1Q'20-2Q'20.



Note: Data for asset managers — Vanguard Group, and Fidelity Investments not available for the defined period on Capital IQ. Thus, not included in the analysis.
(1) Currency conversions at 1EUR = 1.10570 US$, as on 31st March, 2020, and at 1EUR = 1.12472 US$, as on 30th June, 2020 sourced via Oanda.com
(2) Includes the total of third-party assets under management from Allianz's 1Q20 and 2Q20 earning release
Source: S&P Capital IQ, Allianz's 1Q20 and 2Q20 earning release, State Street Global Advisors 2Q20 earnings release, Amundi 1Q20 and 1H20 results, BlackRock 2Q20 earnings call transcript — Seeking Alpha

> Financial services, particularly those with balance sheet light business models and strong technology opportunities across lending, insurance, wealth & financial technology remain a key focus for mainstream PE funds. Those funds with specialist credit experience are anticipating intense levels of activity as lenders adjust to the COVID-19 affected economy.

Jeremy Welch
Partner,
Deal Advisory Financial Services
KPMG in the UK

Sector insights

Private equity

Deal statistics and trends

Year-over-year deal activity from private equity in the FS sector dropped by approximately 36 percent in 1H20. The drop is largely attributed to the impact of COVID-19 which turned a buying spree into industry-wide panic. Overall, during the first half of 2020, PE remained most acquisitive in countries such as the US (#20), India (#20), China (#8) and the UK (#8) while the ASPAC region saw the highest deal flow (total deals #39). Moreover, PE bidders from the US accounted for 49 percent of the total transaction market in 1H20.

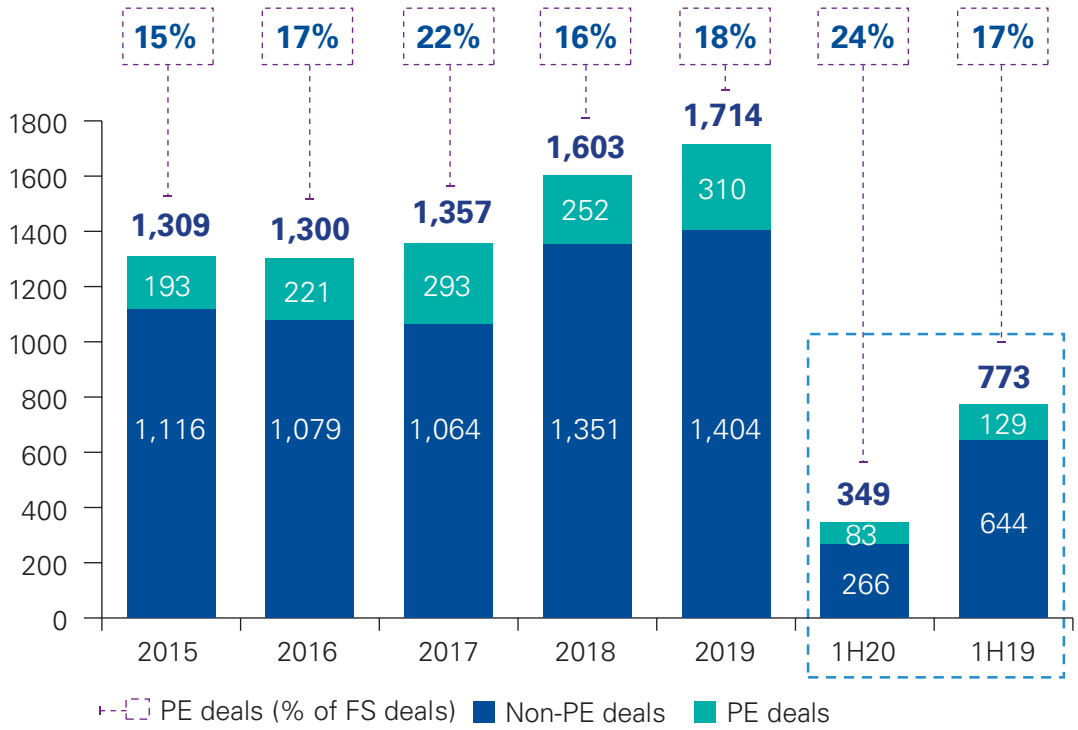
— In the Americas, particularly the US, PE has shown strong interest in long-term care insurance, insurance brokerage, insurtech and payments. They also continue to hunt for wealth management firms as advisory players provide reliable revenue despite volatile market conditions. Many PE firms have held investments rather than sell at marked down prices during the ongoing crisis and turned to investments such as add-ons, PIPEs, carve-outs, and distressed-for-control transactions.

— In Europe, many private equity firms have turned into rescuers (i.e. set up financial lifelines for their European holdings), providing emergency loans or buying debt from companies they own. Targets such as balance sheet light business models, lending, insurance, wealth & financial technology continue to attract the PE players. In the UK, within the insurance sector, the intermediary segment is offering consolidation opportunities for PE investors while the UK's life, annuity, health insurance and payment sectors remain attractive.

— In ASPAC, PE investments in payments as a sub-sector increased compared to 1H19. India remained the hotspot for PE activity followed by China. Strategic investments by PE in weaker banks, distressed sales of weaker non-banking finance companies (NBFCs), lease finance firms and payments service providers remained key targets in 1H20.

In the coming months, the drop-in valuations could drive PE firms to pursue carve-outs and lead to an acquisition of distressed assets as corporates are expected to sell units to raise capital during COVID-19. Bolt-on acquisition opportunities are likely to rise for their portfolio and for acquiring smaller stakes in firms that are in need of capital.

PE deals in FS in 1H20



Note: PE deals are extracted from Mergermarket

Source: KPMG analysis, Country outlook commentary, Internal committee call minutes; PE-VCs keep powder dry, but M&A-based exits to surge — CRISIL; Pandemic Turns Europe's Private Equity Dealmakers Into Rescuers — Bloomberg; European Private Equity Activity Drops Sharply in Q2 2020 Amid COVID-19 Uncertainty — PR Newswire; Will covid-19 halt the rise of private equity in Europe? — The Economist

"Private equity investments have increased in the payments FS sub sectors in 1H20 and continued to remain high for lease finance compared to similar period last year. PE buyers in APAC are increasingly expanding to senior rounds of minority investment in matured digital and payments based FS targets to benefit from subsequent potential listings. Insurance investments by PE players is expected to increase further and distressed funds are looking at unlocking value from NPLs across the banking sector."

Stephen Bates
Partner,
Deal Advisory Financial Services
KPMG in Singapore

Areas of investment

Sub-sector split of PE deals in 1H20

Payment targets continued to garner attention from PE firms globally, while leasing and financing remained the preferred target segment in Asian countries and regions such as India, mainland China and Hong Kong SAR.

Note: Others include securities and brokerage services, investment broking, business support services, accounting services and consulting services

Areas of investment in 2H20

Globally, private equity and venture capital investors envisage a decline in fund-raising activities over the next six to 12 months because of the pandemic. The market is sitting on sufficient un-invested capital and therefore PE investors are expected to focus on segments that are minimally impacted by the pandemic or those with promising opportunities.

Americas

- ● Wealth Management
- ● RIAs
- ■ Insurance brokerage
- ■ Insurance carriers
- ▲ Payments processors
- ◆ Fintech
- ▲ Electronic bill pay
- ■ Representations & warranties

Europe

- ▲ Retail banking
- ▲ Payments
- ▲ Bank BPO
- ▲ Salary secured loans
- ■ Non-life insurance
- ■ Insurance brokerage
- ● Wealth Management
- ■ Annuity
- ▲ Capital markets
- ■ Health insurance
- ▲ Factoring
- ▲ Leasing
- ▲ Private banking
- ■ Reinsurance
- ■ Insurance BPO
- ■ Life insurance
- ● Asset management
- ● Fund intermediaries
- ■ Life run-off insurance

ASPAC

- ● Wealth Management
- ▲ Private banking
- ▲ Commercial banks
- ● Asset management
- ▲ Fintech
- ▲ NBFCs
- ● Asset servicing
- ● Index businesses
- ▲ Lending businesses
- ▲ Leasing
- ▲ Payments
- ■ Life insurance
- ▲ Digital/challenger banks
- ■ Non-life insurance
- ■ Insurance brokerage/distribution
- ◆ Fintech
- ▲ NPLs
- ● Financial planning

▲ Banking ■ Insurance ● Asset Management ◆ Fintech

Note: PE deals are extracted from Mergermarket

Source: KPMG analysis, Country outlook commentary, Internal committee call minutes

Contacts and methodology

Banking & Capital Markets

Giuseppe R. Latorre
Global Deal Advisory Banking & Capital Markets Lead
E: glatorre@kpmg.it

Judd Caplain
Global Head of Banking & Capital Markets
E: jcaplain@kpmg.com

Americas

Timothy E. Johnson
E: tejohnson@kpmg.com

North America

Canada
Georges Pigeon
E: georgespigeon@kpmg.ca

US
Timothy E. Johnson
E: tejohnson@kpmg.com

Latin America

Argentina
Mariano Sanchez
E: marianosanchez@kpmg.com.ar

Brazil
Fernando Mattar
E: fmattar@kpmg.com.br

Chile
Daniel Perez
E: dperezb@kpmg.com

Mexico
Federico Hernandez
E: federicohernandez@kpmg.com.mx

Europe

Giuseppe R. Latorre
E: glatorre@kpmg.it

Europe

Belgium
Peter Lauwers
E: plauwers@kpmg.com

CEE
Tamas Simonyi
E: tamas.simonyi@kpmg.hu

France
Raphael Jacquemard
E: rjacquemard@kpmg.fr

Germany
Thomas Gross
E: tgross@kpmg.com

Ireland
Alan Boyne
E: alan.boyne@kpmg.ie

Italy
Silvano Lenoci
E: slenoci@kpmg.lt

Luxembourg
Yves Courtois
E: yves.courtois@kpmg.lu

Netherlands
Jan Oudejans
E: oudejans.jan@kpmg.nl

Russia
Julia Temkina
E: jtemkina@kpmg.ru

Spain
Borja Peñas De Bustillo
E: bpenas@kpmg.es

Sweden
Fredrik Mattsson
E: fredrik.mattsson@kpmg.se

Switzerland
Christian Hintermann
E: chintermann@kpmg.com

UK
Jeremy Welch
E: jeremy.welch@kpmg.co.uk

Middle East & Africa

East Africa
Nigel Smith
E: nigelsmith2@kpmg.co.ke

Israel
Yoav Lavy
E: ylavy@kpmg.com

Nigeria
Dolapo Adeosun
E: dolapo.adeosun@ng.kpmg.com

Southern Africa
Mike Louw
E: mike.louw@kpmg.co.za

Turkey
Kerem Vardar
E: kvardar@kpmg.com

UAE
Elias Daou
E: edaou@kpmg.com

West Africa
Ijeoma Emezie-Ezigbo
E: ljeoma.emezie-ezigbo@ng.kpmg.com

Asia-Pacific

Asia-Pacific
Stephen Bates
E: stephenbates1@kpmg.com.sg

Australia
Craig Mennie
E: cmennie@kpmg.com.au

China
Louis Ng
E: louis.ng@kpmg.com

India
Sanjay Doshi
E: sanjaydoshi@kpmg.com

Indonesia
David East
E: david.east@kpmg.co.id

Japan
Kenichiro Kato
E: kenichiro.kato@jp.kpmg.com

Korea
Jin Man Kim
E: jinmankim@kr.kpmg.com

Malaysia
Siewmei Chan
E: siewmeichan@kpmg.com.my

Singapore
Stephen Bates
E: stephenbates1@kpmg.com.sg

Global Deal Advisory Banking Sector Coordination & Support

Global Financial Services Deal Advisory Sector Coordinator

Italy
Giovanni Santella
E: gsantella@kpmg.it

Italy, PA/Support
Simona Stanga
E: sstanga@kpmg.it

Global Banking Deal Advisory Sector Support

KGS — India
Cheena Sharma
E: cheenasharma@kpmg.com

Insurance

Ram Menon
Global Insurance Deal Advisory — Lead Partner
E: rammenon@kpmg.com

Laura Hay
Global Head of Insurance
E: ljhay@kpmg.com

Americas

Ram Menon
E: rammenon@kpmg.com

North America

Bermuda
Mike Morrison
E: mikemorrison@kpmg.bm

Canada
Joan Wong
E: joanfwong@kpmg.ca

US
Ram Menon
E: rammenon@kpmg.com

Latin America

Argentina
Mariano Sanchez
E: marianosanchez@kpmg.com.ar

Brazil
Marilia P Melo
E: mmelo@kpmg.com.br

Chile
Daniel Perez
E: dperezb@kpmg.com

Mexico
Federico Hernandez
E: federicohernandez@kpmg.com.mx

Europe

Silvano Lenoci
E: slenoci@kpmg.it

Europe

Belgium
Peter Lauwers
E: plauwers@kpmg.com

CEE
Tamas Simonyi
E: tamas.simonyi@kpmg.hu

France
Benjamin Tarac
E: btarac@kpmg.fr

Germany
Thomas Gross
E: tgross@kpmg.com

Italy
Silvano Lenoci
E: slenoci@kpmg.it

Luxembourg
Yves Courtois
E: yves.courtois@kpmg.lu

Netherlands
Jan Oudejans
E: oudejans.jan@kpmg.nl

Russia
Julia Temkina
E: jtemkina@kpmg.ru

Spain
Borja Peñas De Bustillo
E: bpenas@kpmg.es

Sweden
Fredrik Mattsson
E: fredrik.mattsson@kpmg.se

Switzerland
Damian Sailer
E: dsailer@kpmg.com

UK
Charles K Dixon
E: charles.dixon@kpmg.co.uk

Laura Stamp
E: laura.stamp@kpmg.co.uk

Middle East & Africa

East Africa
Nigel Smith
E: nigelsmith2@kpmg.co.ke

Israel
Yoav Lavy
E: ylavy@kpmg.com

Nigeria
Dolapo Adeosun
E: dolapo.adeosun@ng.kpmg.com

South Africa
Mike Louw
E: mike.louw@kpmg.co.za

Turkey
Kerem Vardar
E: kvardar@kpmg.com

UAE
Elias Daou
E: edaou@kpmg.com

West Africa
Ijeoma Emezie-Ezigbo
E: ijeoma.emezie-ezigbo@ng.kpmg.com

Asia-Pacific

Grace Wong
E: grace.sm.wong@kpmg.com

Australia
Craig Mennie
E: cmennie@kpmg.com.au

China
Louis Ng
E: louis.ng@kpmg.com

India
Sanjay Doshi
E: sanjaydoshi@kpmg.com

Indonesia
David East
E: david.east@kpmg.co.id

Japan
Kenichiro Kato
E: kenichiro.kato@jp.kpmg.com

Korea
Jin Man Kim
E: jinmankim@kr.kpmg.com

Malaysia
Siewmei Chan
E: siewmeichan@kpmg.com.my

Singapore
Stephen Bates
E: stephenbates1@kpmg.com.sg

Insurance M&A & Restructuring

M&A (Corp. Finance)
Mark Flenner
E: mark.flenner@kpmg.co.uk

Restructuring
Barry Gale
E: barry.gale@kpmg.co.uk

Integration & Separation

EMEA
Laura Shearer
E: laura.shearer@kpmg.co.uk

Americas
Frank Kaiser
E: frankkaiser@kpmg.com

Global Insurance Strategy

Paul Merrey
E: paul.merrey@kpmg.co.uk

Matthew Smith
E: matthew.smith4@kpmg.co.uk

Global Insurance Deal Advisory Sector Coordinator/Support

KGS — India
Cheena Sharma
E: cheenasharma@kpmg.com

USA
Kenyatta N Stokeling
E: knesmithstokeling@kpmg.com

Methodology

Limitations of use

- The views and opinions expressed herein are those of the interviewees and do not necessarily represent the views and opinions of KPMG International or KPMG firms.
- The information contained herein is based upon publicly available information. In preparing this document, we have relied upon and assumed, without independent verification, the accuracy and completeness of any information available from public sources. While the information presented herein has been presented in good faith, to the fullest extent permitted by law, KPMG accepts no responsibility or liability to any party in connection with such information.
- Contact the respective KPMG firms for details on any assets. Assets should only be approached after discussion with the local KPMG team.

Deal selection

- All announced deal data has been primarily sourced from Thomson ONE.
- Deals with Target Macro Industry as 'Financials' have been taken into consideration. In addition, fintech deals greater than US$5 billion categorized under Target Macro Industry of 'High Technology' have also been considered.
- Repurchases, exchange offers, rights issues, internal re-organizations and tender offers have been excluded.
- Thomson ONE has been used as a primary source for deal extraction. However, to give a holistic view, high value deals have also been included from Mergermarket.

Sector classification

- As per Thomson One database, financial services deals have been broadly classified under Banks, Insurance, Asset management, Alternatives Financial Investments (AFI), Brokers, Credit institutions, Diversified financials, Government sponsored enterprises and Other financials.
- Brokers, Credit institutions, Diversified financials and Government sponsored enterprises have been classified under Banking.
- AFI have been considered as a sub-set of asset management sector and mainly includes private equity players, hedge funds, venture capitalists, blank check companies, business development companies, special acquisition vehicles, etc.
- Fintech has been considered cross-sector.
- Deals classified by Thomson ONE as 'Other Financials' and fintech deals extracted from 'High Technology' sector have been classified further into various sub-sectors (Banking, Insurance, Asset management) based on subjectivity.
- Many potential assets are classified into multiple sub-sectors within banking, insurance and asset management. Percentage figures in potential assets analysis indicate level of concentration of assets in each sub-sector. Absolute figures will vary as many assets have multiple sub-sector classification. Thus, there is an overlap.

Private equity deals

- For private equity deals analysis, Mergermarket has been considered due to better coverage and classification of private equity players. The inherent deals being considered are over US$5 million in value. If the deal value is not disclosed and it cannot be confirmed that the value is greater than or equal to US$5 million, it is included if the target's revenue is greater than or equal to US$10 million.

Asset size

- All financial services assets which are currently available for sale or are expected to come onto the market.
- Minimum asset value should be 50 million euros.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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