Mergers and Acquisitions Outlook

Expect financial institutions to keep partnering up and consolidating in 2019 and beyond.

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Today's Environment

The dynamic is clear: The financial services industry will continue to evolve and so will many of its organizations. For example, The Financial Times recently published a piece in which the CEO at Invesco believed one in three asset management firms could disappear in the next five years. That means thousands of mutual funds will either cease to exist or be acquired in the not so distant future due to the pressure created by current market conditions. In addition, smaller banks and registered investment advisors are also being acquired, disruptive technologies are taking market share, and expense pressures persist throughout the industry. As we look ahead, a number of factors will drive further consolidation across the space, including broader market factors, global uncertainties and shifting needs.

Point B's Perspective

Firms will consider mergers and acquisitions as they seek new ways to differentiate themselves to keep existing business and gain new clients. Clients more often want and expect their providers to offer more holistic advice across their households. This may include not only banking and investment advice, but also perspectives on insurance and other areas. The key to success will be in keeping a clear eye on the customer experience.

Eroding margins are another reason for considering M&A as a strategy. More firms are looking to scale their operations to remain competitive. By merging with like-minded companies whose middle office, back office, and/or distribution capabilities are superior or complementary to their own, many firms will see immediate dividends in efficiency and cost reduction. The roadmap to get there may be challenging, but most firms can and will explore it as they contemplate their competitive position.

High-paced technology transformation and the retirement of legacy systems will force many banks and investment management firms to evaluate their M&A strategies. Emerging technologies such as blockchain, artificial intelligence and robotic process automation will also influence how firms evaluate partnership and acquisition opportunities. Target organizations that have already adopted fintech-related capabilities and, more importantly, show a positive return on those investments, will be more attractive to financial institutions with less maturity in these capabilities. Practical wisdom says it's often preferable to buy rather than build.

Finally, a push toward developing and improving analytical capabilities will force some institutions to evaluate potential partnerships. Organizations that have better market and/or client data, and have successfully used it for business intelligence and predictive analytics purposes, will be attractive targets to large, traditional, banking institutions – specifically, those that have struggled with organizing, analyzing and monetizing information in the past.

Where to focus now?

For businesses looking to become more active in M&A, here are a few things to consider when selecting partners, executing transactions and integrating operations:

- **Practice humility.** Develop a deep understanding of the target's performance drivers and honestly assess your ability to positively impact those factors throughout the deal and integration lifecycle.
- **Set the right pace.** Build your integration strategy to set the pace of integration. Move as quickly as possible from purchase agreement to close to limit any degradation in enterprise value prior to ownership transfer.
- **Establish accountability.** Create an acquisition performance management team comprised of deal team and integration team members. This team will drive the alignment with, measurement of, and visibility to KPIs for the transaction.
- **Educate the masses.** Be sure that all constituencies involved with pre-close integration planning and post-close integration execution fully understand the key criteria that enabled a "go" decision at completion of diligence.
- **Incentivize a long-term focus.** Substantially supplement rewards for completing integration efforts with rewards for achieving specific, longer-term combined business performance targets.
- **Avoid value destroyers.** Hidden dangers such as indecision, insufficient capacity to deliver and neglecting the impact on the workforce can all work against you if you don't navigate the integration carefully.

The Bottom Line

Financial services organizations will face a number of challenges in the near-term, including fee pressures generated by the move from active to passive management, a massive generational wealth transfer, and the demand to provide an omnichannel client experience. Thus, being nimble, innovative and efficient will be table stakes for firms seeking a leading position in the market. With this in mind, firms in the industry will continue to explore partnering arrangements and M&A opportunities that create scale, leverage technology, and create cost efficiencies. By laying the foundation for a solid integration strategy from pre-closing through operational execution, firms can dramatically increase their chances for success.

