



# M&A Views



## Deloitte M&A Views podcast:

### Banking on M&A: Trends impacting deal activity (part two)

#### Transcript

**Greg:** Welcome to Deloitte M&A views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions (M&A). I'm Greg Jarrett. Today we continue the discussion on M&A in the banking industry and the effect of FinTech, financial technology, on that industry, as well as how cross-border M&A is playing a role. We're joined by two members of the Deloitte banking M&A leadership team: Paul Legere, principal with Deloitte Consulting LLP, and Jay Langan, partner with Deloitte & Touche LLP.

**Greg:** Gentlemen, thanks for taking the time to join us. Paul, we've come through three administrations, three presidents, since we went through the financial crisis, which resulted in a massive amount of regulation going into effect in order to try and keep that sort of thing from happening again. We're easing off of that now. Is that going to make the environment here in the US more attractive for overseas participants, or would-be participants, to get into the banking industry in the United States?

**Paul:** Greg, that's a great question. And it's been interesting to watch over the last decade or so. Hard to say it's been a decade almost, but there's been a real cycle. And I think the US was probably at the forefront from a regulatory perspective in clamping down and making some adjustments that were required. However, over the years, we've also been, as a result, a bit quicker in cleaning up some of the balance sheet challenges, some of the process challenges, and some of the front-end market challenges. Because of that, and because our market is growing—albeit relatively slow—we're one of the few western geographies that can actually point to a market that is quite attractive to foreign investors. So, I do believe that what we've been through, where we are, does create the potential dynamic for increased interest in investing in the US, especially for the larger institutions, and potentially in alternative models such as joint ventures (JVs).

**Greg:** And Paul, that leads to my next question for Jay: Are the foreign banks going to have to be more creative foreign entities? Are they going to have to get creative to come into the US market?

**Jay:** Well I think there are a couple of ways, and I think the thing that folks don't always realize is many of them are already here in small footprint. It might not be their global brand, they use a lot of local brands they bought years ago and never rebranded. Look around the world: There are a lot of countries that have toe-holds

already, so I think using those toe-holds to expand is the most obvious avenue for the banks that have the capital wherewithal. I think there's other models. I think investment management's been a hot space globally where folks are trying to develop scale and cross-border distribution. So it might not be the pure-play banking play if they don't have a footprint, but I think that there's a multitude of ways of getting in. But I think many folks are already here that they've been cautious in their rebranding of the global brand, and I think that's going to help facilitate getting deals done because they're a known entity to many of our regulators.

**Greg:** Jay, the times are reminiscent of when we first got into smartphones. It changed the way we communicate. Now banking is getting into FinTech, and it's not just for venture capitalists anymore. Banking institutions want to do it. Everyone wants to get into it. Is this a case where a new FinTech-savvy banking company is going to be taken over by an old line banking company so that they can get together and have this new shiny FinTech in place? How much of a driver is FinTech?

**Jay:** You know, I think it's playing itself out in many different ways. I think if you look back two years, our initial impulse was to disintermediate the banks and take over, and we're seeing them play more in the sandbox than initially expected. I think there are a lot more strategic alliances, JVs, using the banks as either a warehousing line or using the banks to buy their products. So I think the ecosystem is evolving probably more toward teaming than we'd initially anticipated, which seems to be working quite well in the market today. In the longer term, it's to be determined.

I also think the role of FinTech in banking is changing quite a bit. I think it originally was very focused on loan origination, front end, and mobile wallet. We're seeing a lot more activity on the back end as banks seek to cut costs. Whether it's AML—you know, your customer requirements—there are so many requirements today in banking institutions that are cost heavy, that I think there's a lot of interesting FinTech solutions that are coming out there. They're trying to resolve some of that. So I think we're seeing a lot more focus on both sides of the income statements today in the value of FinTech.

**Greg:** And Paul, for you, just how deeply embedded is FinTech in today's banking industry?

**Paul:** I think we're in inning one. And that's probably being generous. For the most part, I see kind of two very distinct tracks. I see the FinTech track to the larger companies, primarily in the payment space, as I think Jay noted, that have become large, truly large global leaders in certain instances. And I see that the legacy kind of infrastructure, physical branch banking, that has the older line infrastructure, balance sheet, and income statement associated with it—and ultimately it's trying to convert to more digital. More FinTech, if you will. And I think those two are merging. The question is, do they merge before they become really competitive across a wide spectrum of processes, products, services? Or do they become competitive first? And I think they're already kind of playing in both, so it's going to be very interesting to see how this plays out and how quickly it plays out. I do expect it's going to be the game changer that most people think. And I think it will be playing out, potentially faster and faster as this game continues to be played.

**Greg:** I'm Greg Jarrett. Thanks for listening to Deloitte M&A Views, sponsored by Deloitte's M&A Institute. For more information around insurance M&A, download the latest report at [www.deloitte.com/us/insurance-ma-outlook](http://www.deloitte.com/us/insurance-ma-outlook). We also release new podcasts regularly, and if you subscribe, you won't miss a single one. To stay connected and receive more information on Deloitte's M&A service offerings, visit

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