Driving synergies to navigate uncertainties and maximize value

Mergers & acquisitions landscape and post-merger integration imperatives for the banking, financial services, and insurance firms of the Asia Pacific, Middle East, and Africa region
Introduction

Although the COVID-19 pandemic disrupted the global business landscape, the Asia Pacific, Middle East, and Africa (APMEA) region remained relatively resilient and economically stable. However, APMEA's business environment is marked by uncertainties. Factors like potential mutations of COVID-19, global supply chain disruptions, and increasing crude oil prices still threaten APMEA's economy.

Banking, financial services and insurance (BFSI) organizations in the APMEA region are focusing on building resilience to these uncertainties. Developing scale and digital capabilities has emerged as key strategic priorities to ensure operational efficiency and business-as-usual. With its ability to provide a swift path to desired changes, Mergers and Acquisitions (M&A) is emerging as a corporate strategy of choice. However, to optimally leverage the benefits of an M&A deal, organizations need to ensure a seamless post-merger integration (PMI).

This article explores the current state of M&A activity in APMEA's BFSI sector, the factors driving the M&A activity, and a step-by-step approach BFSI firms can implement to ensure a successful post-merger integration.
Compared to the U.S. and Europe, APMEA remained relatively resilient to the economic impact of COVID-19.

As the business environment remains uncertain, BFSI firms focus on building resilience and driving operational efficiencies.

Hence, leaders are looking for M&A opportunities to gain scale and develop digital capabilities within a minimal period.

APMEA’s economic resilience amid recent business disruptions

Uncertainty is the new normal, which is evident from the sudden lockdowns and travel restrictions that global economies have had to impose since early 2020 to prevent the proliferation of different variants of COVID-19. These measures significantly disrupted business operations across industries, and the BFSI sector was no exception.

Figure 1 shows the impact of the COVID-19 pandemic on the real GDP growth rate of key regions across the globe. There is a common trend visible in each region. The first wave of COVID-19 in early 2020 was the most detrimental, marked by severe operational disruptions and a significant contraction in real GDP. In the subsequent waves, governments and businesses could adapt to the new normal and manage operational disruptions well – resulting in a strong recovery of real GDP in 2021.

Expectedly, the economic impact of COVID-19 will further subside in 2022 and 2023, with the ground set for a modest to strong growth in real GDP.

Interestingly, APMEA led its global counterparts throughout this period. It witnessed minimal contractions in real GDP in 2020, demonstrated strong recovery in 2021, and is likely to deliver robust growth during 2022 and 2023, respectively.

Figure 1: Real GDP growth rate (%) by regions from 2020-23 (Source: IMF World Economic Outlook forecast, January 2022 update)
Recent economic highlights and future outlook of APMEA

**Emerging and Developing Asia:**

The region witnessed only a 0.9% decline in real GDP in 2020, followed by a steep rebound in 2021, significantly outpacing the pre-pandemic levels. Further, the region is poised to deliver the highest growth rate globally, primarily on the back of:

- **ASEAN:** The region demonstrated resilience to the first wave of pandemic and witnessed a 3.4% decline in real GDP in 2020. As the vaccination drive took pace and mobility restrictions eased, real GDP partially recovered with 3.1% growth in 2021.

  In the next two years, the economy is likely to grow by 5.6% and 6.0%, respectively, primarily on the back of the reopening of international borders, which will spur economic activity and boost the tourism sector. However, the forecasts may get negatively impacted due to global supply chain bottlenecks and rising crude oil prices.

- **China:** China was the only major economy globally to witness growth in 2020. In 2021, China demonstrated 8.1% growth in real GDP, the highest in the last decade. Solid industrial output, domestic consumption, and exports marked this growth. However, owing to weakening domestic consumption, power crunch, and property downturn, the economy is expecting a modest growth of 4.8% and 5.2% in 2022 and 2023, respectively. Another impediment to growth is that China faces challenge in relaxing its mobility restrictions. The stringent enforcement of zero-COVID policy, puts pressure on the economy as commercial cities are under partial or full lockdown.

- **India:** Though India witnessed a steep decline of 7.3% in real GDP in 2020, the economy recovered well in 2021, clocking 9% growth with a strong surge in net exports, consumption, and investments. From a sector perspective, both industry and services sectors demonstrated strong growth with an 11.8% and 8.2% increase in gross value added (GVA).

  The economy will likely continue its robust growth of ~9% in 2022. Strong consumption, exports, and government initiatives, including public spending on infrastructure projects and production-linked incentive schemes to stimulate private investments, will primarily drive this expansion.

  However, 2023 may witness real GDP growth tapering off to ~7.1%, owing to high baseline and headwinds due to increased commodity prices.

- **Sub-Saharan Africa:** The region remained relatively immune, with only a 1.7% contraction in real GDP in 2020. In 2021, as the COVID-19-related mobility restrictions eased and commodity prices increased, the region recovered well with a 4.0% growth in real GDP.

  Owing to slower vaccine rollout and ongoing fiscal challenges (lack of funds to spend on development projects, inability to contain public debt and mobilize tax revenues), the region is expected to grow by 3.7% and 4.0% in 2022 and 2023, respectively.
• **Australia:**
  With strong public-private collaboration, Australia managed the economic impact of the COVID-19 pandemic and witnessed only a 2.4% decline in real GDP in 2020. The economy rebounded in 2021, registering 4.2% growth primarily due to high vaccination rates, which allowed the economy to reopen, thus driving household spending. In 2022, the country expects its GDP to grow by 4.1%, primarily due to a boost in national income from high commodity prices and growth in private consumption and investment. However, real GDP growth may taper off to 2.5% in 2023 due to expected withdrawal of extraordinary policy support which were put in place to support Australian economy during pandemic.

• **Middle East and Central Asia**:  
  Real GDP contracted 2.6% in 2020, primarily due to a significant decline in demand across the oil, tourism, and aviation sectors. Despite the outbreak of the 2nd and 3rd wave of COVID-19 in 2021, the region's real GDP increased by 4.2%, primarily due to the easing of production curbs and an increase in oil prices. The country expects to grow its economy by 4.3% and 3.6% in 2022 and 2023, respectively. This growth is owing to a strong rebound in the oil and natural gas sector. High vaccination rates and increased private investments are likely to benefit non-oil sectors, which may act as tailwinds and further drive real GDP.

• **Japan:**
  Real GDP contracted by 4.7% in 2020, primarily due to the extended state of emergency, which led to a decline in private consumption. The industry also witnessed an acute shortage of semiconductor chips due to supply chain disruptions, which caused a significant drag in capital expenditure plans of corporates. In 2021, the real GDP increased only by 1.6% as Japan imposed fourth state of emergency in July 2021, which held back the economic recovery. The real GDP is expected to increase by 3.3% and 1.8% in 2022 and 2023, respectively on the back of strong vaccination drive and new economic policy package.

Though most of the economies across APMEA have started regaining strength, but they may face significant headwinds due to potential mutations of COVID-19, global supply chain disruptions and increasing crude oil prices. Hence, to navigate through this uncertain business environment, BFSI firms are focusing on building their resilience. One of the immediate leadership priorities is gain scale and develop digital capabilities in a way that can drive operational efficiencies and accommodate remote working and volatile interest-rate environment. As M&A help to achieve desired changes in minimal period of time, it has become an integral part of corporate strategy.

*Middle East and Central Asia includes Algeria, Azerbaijan, Bahrain, Iran, Iraq, Kazakhstan, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Turkmenistan, and United Arab Emirates. Armenia, Egypt, Georgia, Jordan, Lebanon, Morocco, Pakistan, Syrian Arab Republic, Tunisia, and West Bank and Gaza, Afghanistan, Djibouti, Kyrgyz Republic, Mauritania, Somalia, Sudan, Tajikistan, Uzbekistan, and Yemen*
In 2021, M&A deal value hit an all-time high in the last five years, supported by strong investor confidence.

Banking remained the most active sector, contributing 72.0% and 42.1% of deal value and volume, respectively in 2021.

M&A activity is likely to remain strong in the near to mid-term as corporates are looking to accelerate their growth plans.

The state of M&A activity in APMEA’s BFSI sector

After a subdued M&A activity in 2020, APMEA witnessed a record level of deal activity in 2021 by value. The pandemic-driven economic uncertainty and mobility restrictions forced corporate leaders to take a “wait and watch” approach for acquisitions. Investor confidence rebounded in 2021 with relaxations in mobility restrictions, resumption in economic activity, and reactivation of M&A plans which organizations had put on hold due to COVID-19.

The deal value was up by 78.9% in 2021 (vs. 2020), and volume was up by 4.8% (vs. 2020), as indicated in figure 2. From a sector perspective, banking continued to be the most active sector, contributing to 72.0% and 42.1% of deal value and volume, respectively.

The M&A momentum is likely to continue in 2022 due to strong investor confidence as corporate leaders are looking to accelerate their growth agenda. Key fundamentals which drove M&A activity in 2021 are primarily in place – relaxation in mobility restrictions, positive GDP growth outlook, strong demand, and private consumption.

Figure 2: M&A activity in APMEA’s BFSI sector (Source: S&P Global Market Intelligence, Wipro Insights)
Top deals by sector across APMEA

Banking

The mega-deals in the payments segment gave rise to high deal activity in the banking sector. APMEA-based payment companies witnessed strong interest from US buyers to capture the wave of “buy-now-pay-later or “BNPL” frenzy. In August 2021, Square, the US-based payments service provider, acquired Afterpay, an Australia-based payments solutions provider, for $29 billion. The acquisition enables square to leverage Afterpay’s BNPL platform to deliver more compelling products and services for merchants and consumers.

In August 2021, the Indian payments space witnessed a mega-deal with PayU acquiring IndiaIdeas.com (BillDesk) for $4.7 billion. The acquisition will provide scale to PayU and an opportunity to offer value-added services in analytics and AI. In September 2021, US-based global payments service provider PayPal acquired Paidy for $2.7 billion in another mega-deal. Paidy is a Japanese two-sided payments platform that is a middleman between consumers and merchants and provides BNPL solutions.

Capital Markets

Capital markets remained exceptionally active over the last year, with multiple mega-deals. In March 2021, QSuper and Sunsuper merged, creating the second-largest superannuation fund worth A$200 billion ($153.6 billion) and servicing over 2 million customers.¹

In August 2021, Hong Kong-based real estate asset manager ESR Cayman acquired ARA Asset Management and its subsidiary LOGOS for $5.2 billion. The transaction will create the third-largest listed real estate asset manager globally with a gross AuM of $140 billion. In August 2021, US-based global investment bank Houlihan Lokey acquired GCA Corporation, a Japan-based global investment bank, for $591 million. The acquisition will help Houlihan Lokey expand its presence in Europe and Asia.
Table 1: Top 15 M&A deals in APMEA’s Financial Services Market, 2021 (Source: S&P Global Market Intelligence, Wipro Insights)

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Buyer</th>
<th>Target’s Sector</th>
<th>Target’s Country</th>
<th>Deal Value ($ billion)</th>
<th>Deal Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug -21</td>
<td>Afterpay</td>
<td>Square</td>
<td>Banking</td>
<td>Australia</td>
<td>28.7</td>
<td>Enhance Buy Now Pay Later solutions</td>
</tr>
<tr>
<td>Aug -21</td>
<td>ARA Asset Management</td>
<td>ESR Cayman</td>
<td>Capital Markets</td>
<td>Singapore</td>
<td>5.0</td>
<td>Gain economies of scale</td>
</tr>
<tr>
<td>Aug -21</td>
<td>IndiaIdeas.com (BillDesk)</td>
<td>PayU</td>
<td>Banking</td>
<td>India</td>
<td>4.7</td>
<td>Gain scale and offer value added services like analytics and AI</td>
</tr>
<tr>
<td>Sep -21</td>
<td>Paidy</td>
<td>PayPal Holdings</td>
<td>Banking</td>
<td>Japan</td>
<td>2.7</td>
<td>Expand presence in Japan</td>
</tr>
<tr>
<td>Aug -21</td>
<td>China Life Insurance</td>
<td>China Developmen Financial</td>
<td>Insurance</td>
<td>Taiwan</td>
<td>2.6</td>
<td>Diversify into insurance business</td>
</tr>
<tr>
<td>Jan -21</td>
<td>Al Khalij Commercial Bank</td>
<td>Masraf Al Rayan (Q.P.S.C.)</td>
<td>Banking</td>
<td>Qatar</td>
<td>2.2</td>
<td>Gain economies of scale</td>
</tr>
<tr>
<td>Dec -21</td>
<td>Shriram City Union Finance</td>
<td>Shriram Transport Finance Company</td>
<td>Banking</td>
<td>India</td>
<td>2.0</td>
<td>Simplify corporate structure &amp; integrate products under one platform</td>
</tr>
</tbody>
</table>

In August 2021, China Development Financial Holding Corporation acquired China Life Insurance for $2.6 billion. The acquisition will enable China Development Financial to become a complete financial services provider across banking, insurance, and capital markets.

Consolidation continued in the Indian life insurance industry as in September 2021, HDFC Life acquired Exide Life Insurance for $0.9 billion. The acquisition will help HDFC Life expand its presence in South India and strengthen its distribution network. In August 2021, TAL Dai-ichi Life Australia acquired Westpac Banking Corp’s life insurance business in Australia for $660 million. The acquisition will strengthen TAL’s market position as the largest life insurer in Australia. The deal also included an exclusive 20-year strategic alliance through which TAL will provide life insurance products and services to Westpac’s existing customers and partners.
<table>
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<th>Target</th>
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<th>Target’s Country</th>
<th>Deal Valueb ($ billion)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Jul-21</td>
<td>Fullerton India Credit</td>
<td>Sumitomo Mitsui Financial Group</td>
<td>Banking</td>
<td>India</td>
<td>2.0</td>
<td>Expand its footprints in India</td>
</tr>
<tr>
<td>Sep-21</td>
<td>Shengjing Bank</td>
<td>Shenyang Shengjing Finance Investment</td>
<td>Banking</td>
<td>China</td>
<td>1.5</td>
<td>Stabilize Shengjing Bank’s operations</td>
</tr>
<tr>
<td>Apr-21</td>
<td>VPBank Finance</td>
<td>SMBC Consumer Finance</td>
<td>Banking</td>
<td>Vietnam</td>
<td>1.4</td>
<td>Expand its footprints in Vietnam</td>
</tr>
<tr>
<td>Oct-21</td>
<td>EnTie Commercial Bank</td>
<td>IBF Financial Holdings</td>
<td>Banking</td>
<td>Taiwan</td>
<td>1.2</td>
<td>Gain economies of scale</td>
</tr>
<tr>
<td>Feb-21</td>
<td>Members Equity Bank</td>
<td>Bank of Queensland</td>
<td>Banking</td>
<td>Australia</td>
<td>1.0</td>
<td>Gain economies of scale</td>
</tr>
<tr>
<td>Dec-21</td>
<td>Shinsei Bank</td>
<td>SBI Regional Bank</td>
<td>Banking</td>
<td>Japan</td>
<td>1.0</td>
<td>Strengthen consumer and corporate loan business</td>
</tr>
<tr>
<td>Sep-21</td>
<td>Exide Life</td>
<td>HDFC Life Insurance</td>
<td>Insurance</td>
<td>India</td>
<td>0.9</td>
<td>Expand presence in South India</td>
</tr>
<tr>
<td>Jul-21</td>
<td>Liberty Holdings</td>
<td>Standard Bank Group</td>
<td>Insurance</td>
<td>South Africa</td>
<td>0.7</td>
<td>An integrated banking, life insurance, and asset management group</td>
</tr>
<tr>
<td>Aug-21</td>
<td>Westpac Life Insurance Services</td>
<td>TAL Dai-ichi Life Australia</td>
<td>Insurance</td>
<td>Australia</td>
<td>0.7</td>
<td>Strengthen its market position as the largest life insurer in Australia</td>
</tr>
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</table>

*Date refers to the date of announcement of the deal.
Deal value refers to the transaction value at the time of the deal announcement. Here the transaction value is the consideration paid for equity plus the value of assumed current liabilities, net of current assets.
Fundamentals driving the M&A activity

It is critical first to understand the fundamentals driving the recent upsurge in M&A activity in the region to predict how APMEA's M&A landscape in the BFSI sector will shape up in the near future. Figure 3 gives a summary view with key themes and respective drivers within each theme that motivated deal-makers to pursue M&A.

Figure 3: Key drivers of M&A activity in APMEA's BFSI sector

<table>
<thead>
<tr>
<th>Regulatory forces</th>
<th>Drivers</th>
<th>Trends</th>
<th>Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberalization of financial services</td>
<td>Inbound M&amp;A to acquire controlling stake in China-based JVs</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Increased capital requirements in securities market</td>
<td>Consolidation in China's securities markets</td>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Relaxation of FDI limit in insurance</td>
<td>Inbound M&amp;A to acquire controlling stake in India-based JVs</td>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Fee-for-no-service misconduct</td>
<td>Divestment of non-banking businesses by Australian BFSI firms</td>
<td>Australia</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Depleting profitability</th>
<th>Drivers</th>
<th>Trends</th>
<th>Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing combined ratio in the insurance</td>
<td>Consolidation in Indian insurance sector</td>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Increasing NPAAs in the public sector banks (PSBs)</td>
<td>Consolidation in PSBs along with privatization of some PSBs</td>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Strong competition from local BFSI companies</td>
<td>Global BFSI firms exiting from South East Asia</td>
<td>ASEAN</td>
<td></td>
</tr>
<tr>
<td>Most “overbanked” region</td>
<td>Consolidation of banks in Middle East</td>
<td>Middle East</td>
<td></td>
</tr>
</tbody>
</table>
Over the last few years, APMEA’s BFSI sector witnessed several bold moves by regulators. One of the focus areas has been to instill financial discipline – as China increased the capital requirements of its securities firms – driving consolidation. Another priority has been to make the BFSI sector attractive to global players and drive inbound M&A activity. For instance, China liberalized its financial services sector, and India increased FDI limits for insurance. Lastly, safeguarding customers’ interests also became the core agenda of regulators. Australian regulators forced banks to sell their non-banking businesses to prevent conflict of interest, driving significant divestments.

### Regulatory forces

Over the last few years, APMEA’s BFSI sector witnessed several bold moves by regulators. One of the focus areas has been to instill financial discipline – as China increased the capital requirements of its securities firms – driving consolidation. Another priority has been to make the BFSI sector attractive to global players and drive inbound M&A activity. For instance, China liberalized its financial services sector, and India increased FDI limits for insurance. Lastly, safeguarding customers’ interests also became the core agenda of regulators. Australian regulators forced banks to sell their non-banking businesses to prevent conflict of interest, driving significant divestments.

### Depleting profitability

This theme has been especially relevant in the COVID-19 pandemic as BFSI firms witnessed significant pressure on their margins due to increased combined ratios, increased NPAs, and intense competition. Against this backdrop, BFSI firms seek consolidation opportunities to gain economies of scale and sustain their margins. Moreover, some foreign players are looking to exit the markets where domestic players have a strong foothold.
Growth opportunities

Most of the sub-regions within APMEA are emerging economies, offering high growth opportunities. For instance, ASEAN-based “super apps” that allow end-users to access multiple services are witnessing robust growths. BFSI firms are investing in these apps to gain access to their large customer base. Similarly, owing to lower penetration of financial services, Africa’s payments and insurance sector is witnessing strong traction from global BFSI firms, driving significant inbound M&A deals.

Table 2 gives a detailed view of each sub-region within APMEA, highlighting key drivers, trends, and recent M&A deals around these trends.

Table 2: Key drivers, trends, and recent M&A deals in each sub-region of APMEA

<table>
<thead>
<tr>
<th>Drivers</th>
<th>Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td><strong>Divestment spree in Australian BFSI sector</strong></td>
</tr>
<tr>
<td>Fee-for-no-service misconduct</td>
<td>As per the recommendations of the Royal Commission, banks are selling their non-core businesses to ensure there is no conflict of interest in their services.</td>
</tr>
<tr>
<td>In February 2019, Australian Banking Royal Commission identified fee-for-no-service misconduct in its banking, superannuation, and financial services Industry.</td>
<td>- <strong>August 2021</strong> — Westpac sold its life insurance business to TAL Dai-ichi for $660 million.</td>
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<td></td>
<td>- <strong>June 2021</strong> — Commonwealth Bank of Australia sold its general insurance business to Hollard Group for $468 million.</td>
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<td></td>
<td>- <strong>December 2020</strong> — Westpac sold its general insurance business to Allianz for $534 million.</td>
</tr>
<tr>
<td></td>
<td>- <strong>August 2020</strong> — National Australia Bank (NAB) sold its MLC Wealth Management business to IOOF Holdings for $1.1 billion.</td>
</tr>
<tr>
<td></td>
<td>- <strong>May 2020</strong> — Commonwealth Bank of Australia sold its Colonial First State Investments, superannuation and investment business to KKR for $1.1 billion.</td>
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</table>
### China

**Liberalization of financial services sector**

China has allowed foreign players from asset-management, banking, and insurance sectors to fully own their JV companies in China, increasing ownership limit from 25% to 51% in 2018 and 100% in 2020.2

**Inbound M&A to acquire controlling stake in China-based JVs**

- **Over the last two years** — U.S.-based Arthur J. Gallagher acquired three insurance brokers including Sound Insurance, Mutual Brokers, Southbank Insurance Brokers, and Infocus General Insurance Brokers.
- **February 2020** — Australian local insurance broker AUB Group acquired MGA Whittles for $94 million and also invested $91 million for a 40% stake in online insurance distribution platform BizCover.

**Increased capital requirements in securities business**

Capital requirements for a registered financial holding firm have been increased to at least ¥5 billion ($732 million), while those with banking units have been increased to ¥500 billion ($73.2 billion) in assets.3

**Consolidation spree in China’s securities markets with large players are acquiring their smaller rivals.**

- **September 2020** — Guolian Securities acquired a majority stake in Sinolink Securities for an undisclosed consideration, increasing the strength of its investment banking team.

### Australia

**Fragmented nature of Australian insurance broking space**

Given the fragmented nature of the industry, Australian insurance brokers are undergoing consolidation to gain economies of scale.

**Ongoing consolidation in Australian insurance broking space with growing activity of both domestic and global firms**

- **Over the last two years** — U.S.-based Arthur J. Gallagher acquired three insurance brokers including Sound Insurance, Mutual Brokers, Southbank Insurance Brokers, and Infocus General Insurance Brokers.
- **February 2020** — Australian local insurance broker AUB Group acquired MGA Whittles for $94 million and also invested $91 million for a 40% stake in online insurance distribution platform BizCover.
## Drivers

### India

<table>
<thead>
<tr>
<th>Increasing solvency and profitability pressure in the insurance sector</th>
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<tbody>
<tr>
<td>Only 14 out of 34 non-life insurers have healthy solvency (greater than 180) and combined ratios (less than 110), primarily because the sector witnessed a 6.2% increase in underwriting losses in FY20.</td>
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<table>
<thead>
<tr>
<th>Consolidation spree in Indian insurance sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher M&amp;A activity is expected in the sector in the near to medium term.</td>
</tr>
<tr>
<td>- <strong>August 2020</strong> — ICICI Lombard General Insurance Company merged with non-life business of Bharti AXA for $618 million, creating the third-largest non-life insurer in India.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relaxation of foreign direct investment (FDI) limit in the insurance sector</th>
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<tr>
<td>The country has increased the FDI limit in the insurance sector from 49% to 74%.</td>
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<table>
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<tr>
<th>Inbound M&amp;A to acquire controlling stake in India-based JVs</th>
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</thead>
<tbody>
<tr>
<td>- <strong>October 2021</strong> — MetLife acquired 15% additional stake to increase its current shareholding 47% in PNB Metlife.</td>
</tr>
<tr>
<td>Along with Metlife, foreign insurers, including Aviva and Liberty Mutual, are also looking to increase their stake in Indian JVs to gain ownership.</td>
</tr>
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<table>
<thead>
<tr>
<th>Increasing nonperforming assets (NPAs) in public-sector banks (PSBs)</th>
</tr>
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<tbody>
<tr>
<td>NPAs of PSBs are likely to increase from 8.8% in September 2021 to 11.0% by September 2022, primarily due to stress in micro, small and medium enterprises segment.</td>
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</table>

| Consolidation of PSBs — To improve the financial stability of Indian PSBs, India's government amalgamated 10 PSBs into 4 in April 2020, reducing the total number of PSBs from 27 in 2017 to 12 in 2020. |
| Privatization of PSBs — In a move to further drive the consolidation of the Indian banking sector, in November 2021, the government announced the privatization of two PSBs — Central Bank of India and Indian Overseas Bank — which may draw interest from private-sector banks as well as NBFCs. |

### Japan

<table>
<thead>
<tr>
<th>Lack of growth opportunities in the domestic market</th>
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<tbody>
<tr>
<td>Prolonged negative interest rates and an aging population is forcing Japanese BFSI players to look for outbound M&amp;A deals to leverage growth opportunities in the developing and emerging Asian markets.</td>
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<table>
<thead>
<tr>
<th>Increased outbound deal activity across BFSI</th>
</tr>
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<tbody>
<tr>
<td>- <strong>Banking</strong> — Sumitomo Mitsui Finance Group inked multiple mega-deals, driving its expansion strategy across Asia. The company acquired India-based Fullerton India Credit Company in July 2021 for $2 billion and Vietnam-based VP Bank Finance Company in April 2021 for $1.4 billion.</td>
</tr>
<tr>
<td>- <strong>Capital markets</strong> — in August 2019, Nippon's Asset Management arm increased its stake to 75% in its India-based JV, Reliance Nippon Life Asset Management.</td>
</tr>
<tr>
<td>- <strong>Insurance</strong> — in August 2021, TAL Dai-ichi Life acquired Westpac's life insurance business for $660 million to bolster its market position in Australia.</td>
</tr>
</tbody>
</table>
### ASEAN

**Strong growth of “super-apps” with large customer base**

The region is witnessing a proliferation of digital apps with a solid customer base. Key examples include Singapore-based Grab (25 million active monthly users) and Indonesia-based GoJek (36 million active monthly users).

**BFSI players are investing in super-apps to leverage their customer base**

- **February 2020** — MUFG invested $706 million in Grab to jointly develop bespoke financial solutions such as lending services to Grab users and drivers in Thailand. MUFG plans to replicate these offerings in other geographies.
- **July 2019** — Visa made a strategic investment in GoJek to collaborate on digital payments in ASEAN.

**Strong competition from local BFSI companies**

Global BFSI companies are finding it difficult to compete with large local players with strong distribution channels.

**Global BFSI companies are revamping their portfolios focusing on markets where they have a strong foothold, leaving geographies including SE Asia**

- **Aviva** sold its Vietnam (December 2020), Singapore (September 2020) and Indonesia (March 2020) operations to local players.
- **AXA** sold its India (October 2021), Singapore (August 2021), Malaysia (June 2021), and Gulf (November 2020) operations.
- **In January 2022 and December 2021, Citi Group** sold its consumer banking units across Indonesia, Malaysia, Thailand, Vietnam, Taiwan and the Philippines.

### Middle East

- **Low interest rates** — To ensure adequate liquidity in the market, central banks cut the interest rates to record lows in 2020.
- **“Overbanked” region** — Middle East is one of the most overbanked regions with intense competition. For instance, UAE has 58 banks (21 national and 37 foreign) serving a ten million population.

**The consolidation of banks to withstand low interest rates and the economic impact of the COVID-19 pandemic**

- In June 2020, National Commercial Bank acquired Samba Financial Group for $15.2 billion to create the largest bank in Saudi Arabia by assets.
- In the short-to-medium term, the region is likely to witness a cross-border M&A. Banks, especially smaller players, are looking to strengthen their balance sheets to withstand the low-interest-rate environment and economic headwinds due to new variants of COVID-19.
APMEA's BFSI sector is likely to experience an uptick in M&A activity in the future, considering the critical drivers discussed above. However, these deals may be complex, involving transformation deals, cross-border transactions, and restructuring with divestments of under-performing assets. To integrate the merging entities seamlessly and deliver synergies, acquirers need solid BFSI industry expertise and sophisticated corporate finance and strategy skills.

### Drivers

**Africa**

**Rapid growth in payments segment given to large underbanked population**

- Africa's retail banking penetration has remained low, with only one-third of adults having a bank account in 2017.
- With a drive for financial inclusion, digital payments companies, especially those enabling payments through mobile, are gaining traction. In 2020, the segment demonstrated 15% and 23% growth in transaction volume and value, respectively.

**Strong growth in insurance sector**

- Africa has the world’s second-fastest growing insurance market, expected to grow at a CAGR of 7% from 2020 to 2025.
- There is significant potential for further growth given insurance penetration in Africa is almost half the global average measured as a percentage of GDP.

### Trends

**Strong inbound M&A activity in the payments segment**

- **September 2021** — U.S.-based Stripe and Sequoia Heritage invested $200 million in Wave, a Senegal-based mobile money provider, at a valuation of $1.7 billion.
- **October 2020** — Stripe acquired Paystack, a Nigeria-based payments company, for $200 million.
- **October 2020** — Network International, a UAE-based digital payments company, acquired DPO Group, a Kenya-based payments firm, for $288 million. DPO Group is present in 19 African countries and caters to 50K merchants.

**Strong growth in insurance sector**

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- There is significant potential for further growth given insurance penetration in Africa is almost half the global average measured as a percentage of GDP.

**Insurance firms are undertaking M&A deals to gain economies of scale and create a Pan-African network:**

- **July 2021** — Standard Bank Group acquired the remaining 46% stake in the insurer Liberty Holdings for $729 million. Liberty is present in 12 African countries and offers health insurance in 27 countries.
- **September 2020** — Allianz acquired the general insurance business of Jubilee Holdings in Kenya, Uganda, Tanzania, Burundi, and Mauritius, expanding its presence across East Africa.
Most M&A deals fail to deliver the expected value to stakeholders due to a suboptimal post-merger integration (PMI).

A holistic approach to PMI is necessary to generate the desired synergies within planned timelines.

To ensure seamless integration, leaders must pay special attention to cultural compatibility issues and IT-led operational disruptions.

Post-merger integration: Realizing synergies from an M&A deal

Wipro’s report - M&A landscape in capital markets: The role of IT in post-merger integration - shows that most M&A deals fail to generate desired value for the stakeholders within the planned timelines. Interestingly, it is not because the target acquired does not have the desired capabilities or talent. The key pitfall is a suboptimal post-merger integration (PMI).

PMI is the most critical and complex stage for value creation across the deal lifecycle, where organizations identify and realize synergies. Hence, it is imperative to design a comprehensive PMI process, as outlined in Figure 4.

Figure 4: A Post-Merger Integration Framework
Based on the required changes of the operating models, the firms will define the speed and degree of the integration. For instance, in a consolidation deal, the degree of integration may be high because both parties are engaged in the same business. However, the speed of integration will be more moderate, typically 6 to 12 months, because it takes time to effectively integrate the best features from each party’s operating model.

- A best-of-the-breed approach may be followed in a consolidation deal, where two firms engaged in same business and are of comparable size, merge to gain economies of scale. This approach allows the acquiring firm to pick the best features from both operating models.

- In a tactical deal, where the target business is relatively small and brings a new product, solution, or capability, the target business may adopt the operating model of the acquirer. This process ensures that the larger acquirer does not need to make significant changes to its operations.

At the outset, it’s vital to define how people, processes, and functions of the combining entities will operate. Based on the core purpose of the merger or acquisition, the businesses will need to identify the required changes in the operating models of both the acquirer and the target business. For example:

- A best-of-the-breed approach may be followed in a consolidation deal, where two firms engaged in same business and are of comparable size, merge to gain economies of scale. This approach allows the acquiring firm to pick the best features from both operating models.

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PMI involves various stakeholders and typically needs multiple processes to run in parallel. The acquiring business must establish a dedicated IMO team and define key work-streams to manage these activities effectively. The IMO team must have the desired M&A, strategy, and technology skills. If the merging firms lack in-house resources, they may need to hire external consultants to undertake these operations.
Identify and quantify the deal-value drivers. Create a detailed plan to realize revenue and cost synergies by leveraging the complementary capabilities of the combining entities. Develop an integrated go-to-market strategy to define how the target and the acquirer will approach the current and new opportunities during the post-merger integration period.

Plan the realization of the synergies

Analyze each business unit and function of the combining entities to identify the best approach for their integration. Ensure full integration of the front, middle, and back-office functions. Also, look out for redundant and overlapping activities; divesting and consolidating them can help reduce costs. Develop an optimal talent sourcing strategy for core and support functions to ensure that the combined entity sustains its competitive advantage.

Prepare diligently for the Day 1

Be pro-active. Clearly define transition service agreements with the seller. Monitor service quality closely throughout the PMI process to ensure that the combined entity can conduct its day-to-day business activities without disruptions. Also, connect with key customers in advance to discuss any expected service changes after the integration is completed.

Run a meticulous change management program

To realize planned synergies, it is critical to make strategic changes to the business models, operating models, and the ways people work. But it is even more crucial to manage these changes effectively.

For instance, people lose confidence and resist any sudden change, which comes as a surprise. Instead, develop a detailed communication plan of the integration to ensure transparency and understanding throughout the deal.
Common PMI pitfalls
Along with using the PMI framework, IMOs can increase the success of the integrations by paying attention to these two common PMI pitfalls.

A PMI requires integrating several teams from the target and the acquirer, and the success of the merged entity depends on how seamlessly the integrated teams deliver. Because organizational culture guides employee behavior, it is essential to assess the cultural compatibility of the target and acquirer organizations early, right at the stage of due diligence, to ensure seamless integration.

Minor IT issues can cause severe disruptions in operations. One common issue is the lack of architectural stability of the combined entity and disruption in operational services as some of the applications fail to run on the new platform. Hence, it is imperative to address the IT-led operational issues during the PMI.
IT integration: The engine driving PMI value

Wipro’s report on post-merger integration highlights how IT integration plays a pivotal role in PMI, driving more than half of total revenue and cost synergies. Moreover, leading BFSI players consider IT integration a core element of their value creation playbook. Figure 5 presents a holistic framework for IT value creation, highlighting four dimensions that can help BFSI firms maximize the value of their M&A deals.

Figure 5: Key IT value creation levers to maximize value of PMI

**People and Processes**
- Integrated operating model
- Digital Transformation
- IT workforce integration and transformation

**Data**
- Master Data Management
- Open API’s
- Data Virtualization
- Data Monetization

**Applications**
- Application Portfolio Rationalization
- Hyper Personalization

**System & Infrastructure**
- Enterprise Service Bus
- Infrastructure & license consolidation
People and Processes

This dimension is concerned with aligning IT talent from the merging enterprises and streamlining the underlying business processes of their operating models:

- **An integrated IT operating model:**
  Design the IT operating model of the combined entity, ensuring seamless integration across the front, middle, and back-office functions. Remove any IT activities that add little or no value across the value chain.

- **Digital transformation:**
  Take a holistic approach to digitize, standardize, and automate all manual processes. In addition to saving costs, this improves customer experience and offers revenue synergies.

- **IT workforce integration:**
  The level of IT maturity of the merging entities can be quite different. Assess the target and acquirer’s IT competencies and develop a plan to bridge the talent gaps with desired upskilling programs.

Data

Data is the most powerful asset and offers immense value creation opportunities in today’s digital era. Below are key technology solutions along with sample use cases that organizations can use to drive the value of data:

- **Master data management:**
  Merging enterprises generally have some customers in common, and simple customer data integration may lead to duplication. Moreover, records of customer details (e.g., address, key contacts) may not match. A master data management solution is needed to scrub the shared data of all anomalies.

- **Open APIs:**
  Another key issue in an M&A deal is aggregating multiple customer accounts held with the merging enterprises. For instance, a retail banking customer could be holding more than one savings/checking account, credit card, and/or loan. It is necessary to consolidate the customer’s finances to give a single view of the relationship with the merged entity. Open-banking APIs enable the integration of multiple firms to consolidate customers’ finances and account details (subject to customers’ consent).
- **Data virtualization:**
  Merging enterprises may use numerous data sources and data warehouse systems. Data virtualization can be used as a data federation layer to provide a consolidated view of data for business intelligence, reporting, and analytics.

- **Data monetization:**
  After effectively integrating all data of the merging enterprises, organizations can develop innovative use cases to monetize data and generate new revenue streams. This process can help diversify revenue streams and build more resilient business models amid a challenging business environment.

**Applications**

This dimension deals with reducing costs by rationalizing internal business applications of the combined entity. It also focuses on personalizing the customer experience by enhancing market-facing applications/tools that are the first touchpoint for customers.

- **Application portfolio rationalization:**
  Redundant applications add to the IT costs. Merging enterprises often have several common internal applications. Assess the combined pool of IT applications, rate them based on their business value, and do away with the redundant ones, driving cost synergies.

- **Hyper-personalization:**
  To cater to increasingly digital-savvy customers, BFSI firms need to offer customized solutions. Organizations can use technologies like artificial intelligence (AI) and natural language processing to offer a personalized experience to the customers and empower them with self-service tools. For instance, AI-enabled investment management platforms provide tailored advice based on clients' specific goals, risk appetite, and ESG preferences.
Merging enterprises often use divergent IT systems and underlying infrastructures, which account for a significant share of the total IT costs. If applicable, consolidating, integrating, and modernizing these systems can cut costs and drive substantial synergies.

- **Enterprise service bus:**
  Integrating divergent IT systems of the merging enterprises is challenging and requires an enterprise service bus (ESB) layer. The ESB helps encapsulate the implementation of the combined IT systems into a more loosely coupled architecture by using services based on representational state transfer (REST) and simple object access protocol (SOAP). REST is a web-standards-based architecture that makes it easier for systems to communicate with each other. SOAP is a messaging protocol for exchanging structured information while implementing web services.

- **Infrastructure consolidation:**
  Assess and consolidate overlapping infrastructure of the combining enterprises, including servers, data centers, and networking hardware. Modernize the core by adopting a suitable cloud platform to enable remote and real-time access to data.

The IT integration framework offers an overview of various levers for IT value creation, but to harness the full potential of these levers, teams need more than a theoretical understanding of how they work. The key is to take a systematic approach across the deal lifecycle, from due diligence to post-integration business-as-usual.
IT integration is highly strategic and enables most of revenue and cost synergies, both directly and indirectly. CIOs must plan early and align their organization’s IT integration strategy and its value creation levers with the core purpose of the deal. A systematic approach, comprehensive planning, and meticulous execution of these levers can make IT integration a remarkable success.

Below are the key imperatives which an IT integration team must consider:

- **Be pro-active. Be prepared.**
  As the saying goes, well-begun means half done. Start early and develop a detailed strategy for integrating, operationalizing, and transforming the IT infrastructure, applications, services, and data right after the deal is announced.

- **Align integration strategy with the deal rationale.**
  Working in silos will not help. Ensure that the IT integration strategy aligns with the core purpose of the deal. It must strive to achieve planned synergies identified in the overall PMI strategy.

- **Ensure no business disruptions.**
  The most severe pitfall in an IT integration is the disruption in business services due to poorly defined transition service agreements. Prepare for Day 1 well in advance and ensure seamless delivery of products and services during and after the integration.

- **Comply with all necessary regulations.**
  BFSI companies have access to confidential customer data. Regulations governing data access, storage, and usage vary between regions. The IMO team needs to ensure that data integration and migration comply with these regulations from one platform to another.

- **Develop resilience to cyber threats.**
  In an M&A deal, organizations develop virtual clean rooms to store confidential information of the target and the acquirer. However, history has shown that combining entities are vulnerable to a potential cyber-attack during the PMI process. Prepare in advance and allocate enough space to prevent and manage any potential cyber-attack.
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