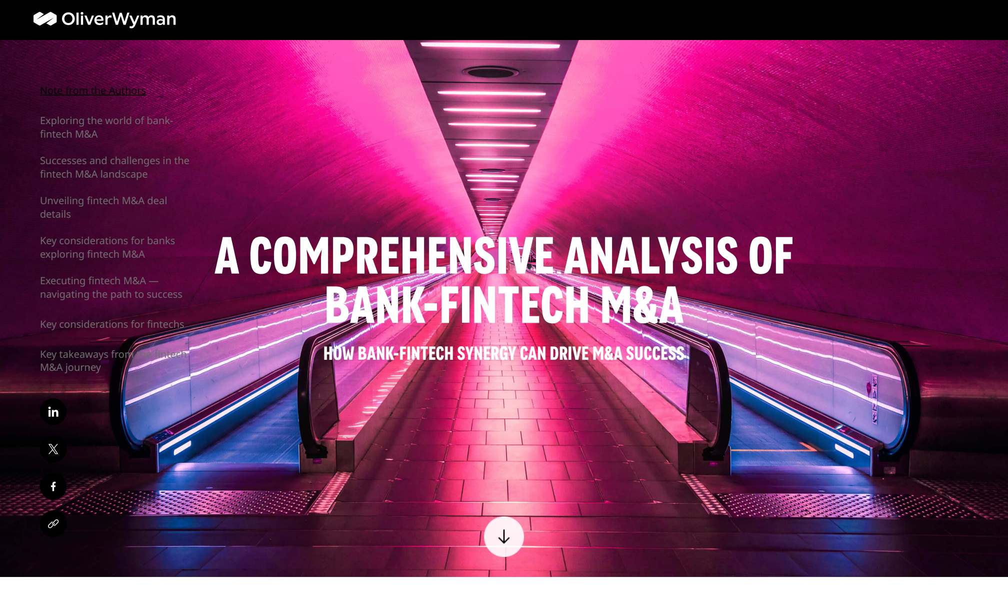
Note from the Authors
Exploring the world of bank-fintech M&A
Successes and challenges in the fintech M&A landscape
Unveiling fintech M&A deal details
Key considerations for banks exploring fintech M&A
Executing fintech M&A — navigating the path to success
Key considerations for fintechs
Key takeaways from the fintech M&A journey



A COMPREHENSIVE ANALYSIS OF BANK-FINTECH M&A

HOW BANK-FINTECH SYNERGY CAN DRIVE M&A SUCCESS

Note from the Authors

Dear readers,

The last decade saw rapid fintech growth and expansion. The dynamics of this era are now shifting for various reasons, including the interest rate environment, regulatory change, and product transformation. Banks have evolved through this period as well, defying predictions of obsolescence by building and acquiring new capabilities.

Given recent industry developments, Oliver Wyman examined this decade of change through the lens of mergers and acquisitions (M&A) between banks and fintechs, combining transaction analysis with expert insight from startup founders, bank corporate development executives, and fintech investment bankers.

The result is a deal-driven look at bank acquisitions of fintech over the trailing 10 years. For the sake of consistency, our paper defines acquisitions as 100% control of the acquired company and defines fintechs as companies offering or enabling financial services products with a value proposition centered around non-traditional banking capabilities (for example, product, technology, processes, and culture). With these parameters in place, the findings and number of deals may challenge conventional wisdom around bank-fintech M&A.

We hope that this paper illustrates the key considerations for both banks and fintechs as they evolve through a shifting landscape.

Thank you for reading,

Jason Zaler, Guillaume Lamey, Cathy Gao, and the Oliver Wyman team

Jason Zaler
Partner, Oliver Wyman

Guillaume Lamey
Partner, Oliver Wyman

Cathy Gao
Principal, Oliver Wyman

Exploring the world of bank-fintech M&A

In 1994, Bill Gates famously said: "Banks are dinosaurs. We can bypass them." Amid the excitement of the first dot.com era and through the global financial crisis and rise of smartphones, thousands of fintechs emerged trying to deliver on Gates' boast.

Fintech funding dramatically increased from $4 billion in 2012 to a peak of $250 billion in 2021 before dipping to $50 billion in the first half of 2023 as interest rates rose sharply and funding dried up. By late 2023, 335 fintech unicorns valued at $1 billion or more had been created across categories ranging from core banking to payments to infrastructure. Some fintechs have reached escape velocity, including PayPal, Square, Stripe, Nubank and Credit Karma. Prominent acquisitions of emerging fintechs included PayPal's acquisition of Honey for $4 billion, SoFi's acquisition of Galileo for $1.2 billion, and Block's (Square) acquisition of Afterpay for $28 billion.

While many fintechs have been hugely successful, the net effect on banks is not what Gates predicted. Banks have proven to be extremely resilient: they have retained and expanded their business.

While fintechs enjoy many advantages (in innovation, product and technology talent, higher customer satisfaction, flexibility in their tech stack, and analytics) banks also enjoy important advantages (in cost-of-funds, distribution and operational scale, customer acquisition cost, and risk management). Fintechs have not swept banks away — quite the opposite. Instead, opportunities for meaningful partnerships and value creation between banks and fintechs have grown.

Viewing their complementary business advantages, many industry observers felt that banks would become active fintech acquirers. However, our analysis shows that this has not been the case:

- Fewer-than-expected bank-fintech acquisitions: despite their share of the total economy, banks made less than 1% of all fintech acquisitions from 2013 through 2023. In the cohort of top 50 US and top 15 Canadian and International Banks analyzed (collectively known as "Top Banks"), only 94 fintech acquisitions were completed in the past 10 years (Exhibit 1).
- Bank-fintech deals are small: Only 13% of the 94 transactions were over $300 million in size — a figure cited by experts as a dividing line between major and minor fintech deals — with most deals focused on tuck-in capabilities easier to integrate into the bank and less challenging to sunset if derailed by common integration and operating challenges.
- Long-term fintech acquisition success is tough: the values, incentives, and cultures are often too dissimilar between banks and fintechs. Examples range from regulatory approach to operating model, and can result in product shutdowns, talent attrition, and dilution of asset value. We suspect that this disincentivizes additional acquisitions despite the case for synergies.

All acquisitions are risky, but we believe the current moment of decreasing fintech valuations, economic uncertainty, and the search for new capabilities and revenue streams provides an opportunity for banks to explore strategic fintech M&A.

Our report, "A Comprehensive Analysis Of Bank-Fintech M&A, How Bank-Fintech Synergy Can Drive M&A Success", explores the situation on the ground and outlines enablers, barriers, and considerations for successful bank-fintech acquisitions.

Exhibit 1: Top banks[1] make up less than 1% of all fintech acquirers
All global transactions, 2013–2023

1: Top 50 US and top 15 international banks (excluding China)
Source: Refinitiv, Pitchbook, FT Partners and Oliver Wyman analysis

CHAPTER 1

Successes and challenges in the fintech M&A landscape

It stands to reason that banks should buy fintechs for technology innovation, client and revenue growth, new product capabilities, customer base expansion, and to defend their own perimeter. However, this has occurred less frequently than expected over the past decade, often because fintech valuations were too high for banks to justify, concerns over cultural fit, and overall economic uncertainty reducing focus on strategic growth. Record fundraising support for fintechs from venture capital and private equity funds in hopes of finding the next unicorn anchored valuations at new heights in efforts to generate returns on portfolio winners, minting a new fintech 'asset class' even without many standout deals.

Banks lacking the scale and capital to operationalize a diverse portfolio of acquired fintechs would be taking too high a risk on any one fintech asset and would not have the ability to readily sell the asset later to take advantage of the appreciation of the asset class as a whole.

With valuations significantly decreasing, we would expect the market to clear through value-accretive deals at more realistic prices. This has not happened to date, in part due to fallout from the Spring 2023 banking crises and the uncertainty of the interest rate environment. Many banks remain focused on the potential for other bank acquisitions that allow them to achieve the scale necessary to overcome the expected cost of regulatory change. Energy otherwise spent for innovative inorganic growth is now focused on bank-bank M&A and ensuring that any future entities are positioned for regulatory approval.

> **Banks need equity capital very dearly if they want to pay dividends and live in harmony with their regulators... There's an absolute ceiling where it's hard to imagine a bank spending $1 billion for a company that burns goodwill**
>
> Fintech investor

Due to the economic climate and continued evolution of consumer banking regulations — such as restrictions on fee income, lowering of debit interchange fees, and caps on overdraft — banks lack clarity on which businesses and products to grow. As a result, investment in fintech acquisitions that would help drive organic growth has been deprioritized in favor of classic cost-takeout synergies.

Banks working to solve these challenges should continue monitoring fintechs or risk losing out. In the current environment, there are fintech deals worth exploring to acquire capabilities essential to organic growth in the future. With valuations down, many of these deals will naturally be smaller in ticket size and can be completed with less process complexity than traditional bank-bank M&A.

> **I think there are going to be more acquisitions because valuations are lower, and capital markets are less hospitable right now. Contingent on the macro environment changing, of course**
>
> Bank coverage analyst

While the bank-bank deal market remains mostly frozen and has a finite number of possible winners and losers, fintechs offer a broad landscape to choose from and can be accessed now. Banks that fail to succeed in traditional banking M&A may be able to generate value through successful navigation of the fintech market. Fintechs in many cases are now ready to consider strategic conversations more seriously with potential bank acquirers seeking capabilities that would have been expensive and onerous to build organically.

CHAPTER 2

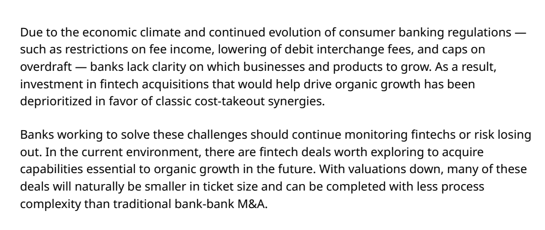
Unveiling fintech M&A deal details

Mergers and acquisitions in general are common — the last 10 years saw an average of $3.5 trillion per year in acquisition activity worldwide and in 2022, an average year, 50,000 deals were completed. However, deal volume is not correlated with success, as 90% of M&A transactions fail long-term due to poor implementation and post-deal strategy complications, according to the Harvard Business Review.

Despite the synergies, banks have often been a lower priority for fintech boards and executives looking to exit compared to the public markets, private equity, enterprise technology, and other fintechs. Overall, out of all fintech transactions in the market, bank-fintech acquisitions account for less than 1% of deals.

Among the approximately 500 whole-company acquisitions undertaken by the top 50 US and top 15 International and Canadian banks since 2013, only 94 or less than 20% were fintech acquisitions. The top acquirers were US based, ranging from across Global Systemically Important Banks (GSIBs) to regional banks and other institutions (Exhibit 2). Most of the remaining 400-plus deals were acquisitions of traditional lines of business such as lending, wealth management, or investment banking.

Exhibit 2: Fintech acquisitions constituted less than 20% of all acquisitions by top banks[1]
Number and percentage 2013-2023



1: Top 50 US and top 15 international banks (excluding China)
Source: Refinitiv, Pitchbook, FT Partners and Oliver Wyman analysis

Over half of the 94 bank-fintech acquisitions consisted of payments and bank / lending tech firms, with financial management solutions, wealth tech, and healthcare fintechs making up the remainder (Exhibit 3).

Exhibit 3: In the last decade, top banks[1] acquired fintech capabilities in five main categories

Acquisitions in the last decade	33	21	18	17	5
Category	Payments	Banking / Lending Tech	Financial Management Solutions	Wealth and Capital Markets Tech	Healthcare Fintech
Percentage	35%	22%	19%	18%	5%

1: Top 50 US and top 15 international banks (excluding China)
Source: Refinitiv, Pitchbook, FT Partners and Oliver Wyman analysis

Bank-fintech acquisitions skewed toward the smaller end of the deal spectrum: across the 94 deals in total, only 13% had announced deal sizes greater than $300 million. This figure represents the midpoint of the materiality hurdle cited in expert interviews and is in line with capital requirements and goodwill impacts cited by experts with both bank and fintech backgrounds. While there are exceptions, such as Goldman Sachs' acquisition of GreenSky for $1.8 billion and Morgan Stanley's acquisition of E*Trade for $13 billion, the vast majority of bank and fintech combinations are relatively small because smaller deals are more easily integrated, less dilutive and less impactful to bank performance overall (Exhibit 4). Even the most prolific bank acquirers have mostly followed the same pattern of pursuing smaller transactions.

Exhibit 4: Few fintech acquisitions by top banks[1] were over $300 million in transaction size
2013-2023

Fintech acquirers (acquisitions)	Percentage	Number
JP Morgan Chase (WePay, InstaMed, Nutmeg, Global Shares)	33%	4
Morgan Stanley (Solium, Etrade)	17%	2
Square (Afterpay)	8%	1
State Street (Charles River)	8%	1
Goldman Sachs (GreenSky)	8%	1
Truist (Service Finance)	8%	1
American Express (Kabbage)	8%	1
Ally (FairSquare)	8%	1

1: Top 50 US and top 15 international banks (excluding China)
Source: Refinitiv, Pitchbook, FT Partners and Oliver Wyman analysis

Successful deals are unlocked when banks see value greater than the cost of acquiring a fintech, and good deals remain the exception to the rule from the bank point of view. With this perspective, deal size and volume over the past decade is rational, though we note that 77% of the 94 deals in the cohort have taken place since 2018. We expect this pace to continue as banks refine M&A-ready use cases and fintech valuations continue to fall.

> **Our definition of a successful transaction is when a combination is able to mutually leverage each other's strengths**
>
> Veteran bank acquirer of fintechs

CHAPTER 3

Key considerations for banks exploring fintech M&A

Banks should identify top M&A priorities prior to scanning for fintech targets and evaluate synergies that can be achieved through a deal versus partnering or building solutions in house. In our experience, banks evaluate fintech M&A across five dimensions (Exhibit 5).

Exhibit 5: Reasons why banks consider acquiring fintechs

- **Tech and innovation discipline**
- **Digital capabilities**
- **Scale and distribution**
- **Value preservation**
- **Culture**

Source: Oliver Wyman analysis

Technology and innovation discipline

The best and most prolific bank acquirers build their skillsets over time, creating capabilities layer by layer across multiple functions needed to support the M&A process. For example, multiple GSIBs approach corporate development with dedicated teams within each line of business, underpinned by a centralized M&A team that leads the transaction in partnership with technology, product, and multiple diligence teams. Regional banks have followed suit and now often embed inorganic growth teams within the business itself.

When banks find fintech targets with unique technology, M&A can be an accelerator of innovation, product, and business growth. For example, JPMorgan Chase's acquisition of OpenInvest in 2021 increased its ability to serve retail and institutional investors with a scalable, value-based investment offering.

Digital capabilities in fintech

Banks have invested significantly to create parity across digital customer experience, design, engineering, and research capabilities with best-in-class startups. Elegant user experiences from across financial services businesses are captured and tested in customer focus groups and resulting product releases are pushed frequently.

In some instances, fintech acquisitions augment digital banking capabilities. For example, Capital One acquired price-tracking app Paribus in 2016. Paribus's customer engagement and product design capabilities enabled the bank to add the Price Protection feature to the bank's credit cards, attracting additional retail partnerships and helping drive customer retention.

Scale and distribution advantages

The number of bank customers, ranging from GSIBs to regionals and even many credit unions far exceed that of all but a handful of fintechs. This translates into pricing power, vendor and partner influence, and distribution across channels. Fintechs that can materially augment these advantages are rare, leading to tuck-in and use-case driven M&A.

US Bank's acquisition of Bento for Business in 2021 leveraged the bank's brand and scale to enhance a key product in the SMB segment and deepen customer engagement. Bento's platform helps small businesses manage physical and digital card payments from mobile or the web, and may complement existing US Bank tools for business owners.

In some instances, fintechs can help unlock key customer segments. For example, in 2021, Fifth Third acquired Provide's customer base of dentists, veterinarians, and other healthcare practitioners. Fifth Third used the acquisition to grow market share in lending, banking, and issuing cards to this strategically prioritized and growing segment.

Value preservation

As fintech valuations decline, banks can choose from a larger pool of potential fintech M&A targets. However, there are valuation discrepancies between banks and fintechs. Banks tend to value fintechs based on profitability and immediate bottom-line impact; fintechs commonly value themselves on future growth metrics and revenue. This misalignment can lead to fintechs being perceived as overvalued by banks calculating deal metrics based on cash flow multiples. In addition, banks focus on accretive value. There is no guarantee that an acquired fintech's value won't plummet the day after deal-closing or end up being written off in the future.

Navigating bank-fintech culture

In bank-fintech M&A, challenges arise from the gulf between startup culture and traditional banking culture. Banks should weigh cultural tradeoffs with perceived business benefits of fintech acquisition targets.

As one founder with a previous bank exit noted, "Most founders have no interest in being at a bank. And they can try to withstand as long as possible... and they try to carve out spaces, but in the end, they will need to assimilate."

This underscores the divergence in mindset and approach between startups and banks. While startups thrive on disruption, agility, and independence, eventually they must adopt their acquirers' ways of doing business, learn to speak the language of banks and bridge operating differences.

Striking the delicate balance between preserving the innovative spirit of startups and integrating into the non-negotiable regulatory and operational frameworks of banks

remains a critical challenge to successful M&A.

Other considerations in bank-fintech M&A

Industry experts agree that banks purchase fintechs primarily for the commercial purposes explored above. Additional considerations driving acquisition might also include credit exposure diversification, cost efficiencies, and buy-and-hold of appreciating assets. These considerations tend to be edge-cases in bank-fintech M&A and we do not evaluate them further.

CHAPTER I

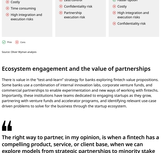
Executing fintech M&A — navigating the path to success

Build versus partner versus acquire

Bank-fintech M&A is not just the domain of GSIBs, although GSIBs have historically been able to allocate the most resources to deal-making capabilities. In recent years, regional and community banks have also been active participants in the market for acquiring fintechs. (see Exhibit 2). Common elements among the institutions include value-accretion partnerships strategies, M&A and regulatory playbooks, and integration process management.

A "build – partner – acquire" approach helps banks choose a path for strategy execution and align on whether M&A is the best option for each use case. Given the time and resources invested in making a transaction successful, it is important to define tradeoffs of each path early on (Exhibit 3).

Exhibit 3: Tradeoffs between Build versus Buy versus Partner



Source: Oliver Wyman analysis

Ecosystem engagement and the value of partnerships

There is value in the "test and learn" strategy for banks exploring fintech value propositions. Some banks use a combination of internal innovation labs, corporate venture funds, and commercial partnerships to enable experimentation and new ways of working with fintechs. Importantly, these initiatives have teams dedicated to engaging startups as they grow, partnering with venture funds and accelerator programs, and identifying relevant use-case driven problems to solve for the business through the startup ecosystem.

> **The right way to partner, in my opinion, is when a fintech has a compelling product, service, or client base, when we can explore models from strategic partnerships to minority stake investments**
>
> Bank corporate strategy executive

Some of the most successful fintech acquisitions began as partnerships that deepened over time. Of the bank-fintech M&A deals within our scope of analysis, nearly 20% of fintechs acquired had existing public partnerships with their acquirer. Through partnerships, banks and fintechs can learn to understand each other's ways of working and operate their respective capabilities.

One founder who sold their company to a top bank and the executive that led the deal agreed that the multi-year partnership between the two companies enhanced both deal process and post-merger integration success.

> **If you are going to sell, make sure you understand the leadership, what their incentives are, and what their plan is. Another bank probably wouldn't have let us near their brand. Don't kid yourself about the operating environment you're stepping into**
>
> Company founder

Partnerships with banks may also lead to better outcomes for fintechs ultimately not acquired. Research by Oliver Wyman finds that fintechs with banks as strategic investors are at least 50% more likely to IPO than those without. Our conversations with bank corporate venture funds suggest that strategic partnerships as accretive to fintech value even without bank-fintech M&A as the outcome.

Integration considerations

Successful post-merger integration (PMI) efforts not only preserve the value acquirers paid for the transaction in terms of talent, capabilities, and commercial traction, but can also maximize the return for investors and the acquirer (Exhibit 4).

Exhibit 7: Post-merger integration enablers

Source: Oliver Wyman analysis

Value accretive integration strategy in bank-fintech M&A should focus on the specific business objective that motivated the deal. Integration efforts that roadblock due to misaligned objectives stemming from a lack of clear focus and path to execution.

Navigating cultural difference between banks and fintechs is key. One investor told us that founders might conceptually understand the cultural implications of being acquired by a bank, but tend to underestimate key differences.

> **There is a big difference between having your activities regulated and being regulated. Most people who haven't worked in a bank, which typically has five to six different regulators, don't understand this. It's all very different**
>
> Investor

Many acquirers want to merge acquired companies quickly and integrate them into existing operating structures. However, integration plans often benefit from a more measured approach.

> **When [we] purchase a company for investment, [we] often let it run on its own. But acquisitions that are purchased by business units are designed to create a cohesive end-to-end customer experience. In this case, keeping a fintech separate that has a very different experience doesn't justify the goal of an end-to-end customer experience strategy**
>
> Senior bank executive

Talent is cited by banks and fintechs as one of the thornest integration issues. Many deals are completed with the implicit understanding that founders are likely to depart upon reaching full deal earn-out, typically at the two-year mark.

> **I don't think talent retention should be a metric of success. If this is your standard, it will be very hard to meet. The core team and culture need to stick around, but if the founders leave, then that is expected**
>
> Fintech shareholder

Banks need to have a strategic integration plan for these and other obstacles to maintain deal value after close.

CHAPTER II

Key considerations for fintechs

For fintechs that started their journey with aspirations of a public listing or sale to a technology behemoth, exiting to a bank is still a good outcome. In fact, it may be the most ideal path. Many fintechs have found themselves in a challenging capital raising environment, wealth management, or digital banking, an established bank is a natural acquirer. Banks can provide immediate distribution scale for a fintech that is struggling to grow on its own. Fintechs that are profitable may be able to leverage the balance sheet of a bank to execute such as financial wellness tools or other solutions that operated independently throughout the pre-merger rate environment but are not viable as a going concern in a shifting economy.

> **It also depends on your relationship with banks. In our case, they were real commercial partners who were essential to growing our business, so the idea of being acquired by a bank was never a problem for me**
>
> Company founder

Fintechs may also sell to banks in times of financial hardship when valuation expectations are lowered. Example circumstances leading to deals might include lack of product-market fit, liability to fundraise, high cash burn rates, competitor strategies that limit growth, and investor pressure to exit. Banks, in this scenario, can pick up valuable assets for valuations closer to what they may be willing to pay, while founders and investors walk away with a respectable sum.

Fintech deal enablers

Invest in the right capabilities

It is key for fintech executives to put time and capital into developing technology, product, and talent with a focus on the future. This will not only build the business today but set conditions for ongoing potential acquirer relationships that highlight how the fintech may fit into a regulated financial institution.

Strategy and value proposition

Fintechs with narrow go-to-market strategies and value propositions may box themselves out from a diverse set of potential M&A acquirers. At the same time, the focus required to scale a fintech must be maintained. One enabling approach to solve this challenge involves building a portfolio of products that can be customized for different customer segments. Identify the use cases top of mind for bank executives, and, upon identifying a pattern, adjusting product roadmap or resourcing accordingly.

Target selection

There will naturally be certain bank executive teams, customer segments, and technology platforms that are best suited for specific fintechs. It is not only the bank's role to determine the right fit, but also the fintech executive, strategy, and growth roadmap role to determine potential bank acquirer strategies and how the fintech company fits those goals.

M&A process

At first inking of acquisition as a potential exit path, fintechs should leverage internal knowledge, their board and investors, and outside parties to prepare an M&A readiness assessment. Fintechs can find this M&A readiness assessment expertise from outside the fintech is often required for efficient, well-managed deals.

Regulatory awareness

The regulatory landscape for banks, and increasingly for fintechs, is evolving rapidly. Fintechs should monitor the existing and proposed regulatory burdens on their business or a combined bank-fintech entity through both internal tracking via policy teams and/or participation in industry trade associations. Understanding the regulatory burdens and likely hurdles to approving a bank-fintech acquisition is key to deal success.

Integration experience

Ensure that the post-merger vision is discussed as early as possible in the M&A process and not relegated to a diligence sub-workstream or deal closing exercise. Examples include tech stack integration, or blended business approaches that may make or break the appeal of the acquisition.

Across each dimension, commercial partnerships are a viable path between fintechs and banks. Working with a bank that understands what a fintech brings to the table can influence valuation and motivate both the acquirer and fintech to collaborate more closely on a long-term shared vision after the transaction closes.

At the same time, it is just as important for banks and fintechs to know when to walk away from a potential M&A deal. Combining banks and fintechs is a material commitment. It is better to measure twice or three times and cut once than to move forward with the wrong partner or under the wrong motivations.

Key takeaways from the fintech M&A journey

Despite years of fintech growth and digital adoption across the financial services industry, there have been fewer successful bank-fintech combinations than expected. Ensuring the right conditions for M&A exist on both sides can help unlock additional deals (Exhibit 8).

Exhibit 8: Enablers of bank-fintech M&A success

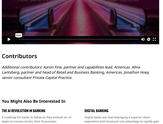
Source: Oliver Wyman analysis

Banks with leading acquisition capabilities have been able to successfully leverage fintech M&A to achieve their strategic objectives. Some of the most successful bank-fintech acquisitions have accelerated bank product and commercial horizons in ways fundamental that often result from inorganic moves. Other banks can study these examples and deploy strategies to yield some of the same rewards.

Similarly, fintechs should not be wary of bank acquisition. Without bank-fintech M&A, many fintechs will continue struggling to find stability and scale. Some may close their doors. Fintechs should embrace the short-term tradeoffs of an acquisition – talent turnover, product evolution, shifting regulatory burdens – for long-term scale and stabilized growth.

Ensuring that banks and fintechs reap benefits when their models are complementary and value additive is key. Bank-fintech acquisitions are a path to generate value in a time of transformational change across financial services.

Watch: How bank-fintech synergy can drive M&A success



Watch: How bank-fintech synergy can drive M&A success

Contributors

Additional contributors: Aaron Fine, partner and capabilities lead, Americas; Alma Lansberg, partner and head of Retail and Business Banking, Americas; Jonathan Hoey, senior consultant Private Capital Practice.

You Might Also Be Interested In

THE DEVELOPER'S BANKING

Scaling fintechs faces challenges as they mature, or begin to cross-correct, their PE journeys.

DIGITAL BANKING

Digital banks are now leveraging a superior client experience and structural cost advantage to rapidly gain customers and deposits.

© 2024 Oliver Wyman, LLC. All Rights Reserved.