Going for growth in Asia: Navigating the way

Financial Services M&A – Singapore

Key figures

There were just 13 deals involving financial services companies in Singapore last year, worth a total of US$402m, down from US$2.26bn in 2006. However, 62% of the Singaporean firms surveyed had completed deals in the past three years. Last year's deals included US$329m in the securities and capital markets sector. The biggest deals were:

- Tokyo Stock Exchange's purchase of 4.99% of Singapore Exchange for US$304m.
- Dubai Investments' acquisition of 5% of Islamic Bank of Asia for US$25m.
- Daimler Financial Services' purchase of 35% of UMF for US$15m.

Summary of 2007 financial services M&A transactions*

Country	Number of deals	Banking	Securities and capital markets	Mutual funds and asset management	Insurance	Value (US$m)
Japan	61	10,615	23,546	1,872	144	36,177
China	94	7,264	6,123	2,604	212	16,203
South Korea	24	10,059	784	1,095	1,069	13,006
Australia	69	1,990	1,497	2,828	725	7,040
India	100	1,486	4,345	974	101	6,905
Malaysia	38	5,373	794	70	324	6,561
Hong Kong	67	1,896	2,015	1,226	1,312	6,450
Taiwan	14	4,522	9	390	145	5,066
Thailand	16	2,239	10	35	6	2,290
Kazakhstan	1	2,175	-	-	-	2,175
Vietnam	13	605	101	217	329	1,252
Pakistan	4	498	504	-	-	1,002
Macau	3	619	-	-	-	619
Indonesia	9	325	93	13	-	431
Singapore	**13**	**-**	**329**	**67**	**6**	**402**
Philippines	9	27	120	14	6	167
New Zealand	7	8	59	21	8	95
Laos	3	19	-	-	-	19
Sri Lanka	1	-	2	-	-	2
Total**	**546**	**49,720**	**40,330**	**11,426**	**4,386**	**105,862**

Source: PricewaterhouseCoopers based on data from M&A Asia.
* Based on deals disclosed.
** Please note that the totals within the table in this report do not always add up to 100 because of rounding.

Future dealflow

M&A will slow down further this year, with no financial services' company believing it will be involved in a deal. But activity will pick up in the future, with 69% of firms expecting to complete deals over the next five years. The same percentage of respondents say that joint ventures and partnerships will be key to their expansion plans.

Do you agree or disagree with the following statements?	Agree	Disagree	Don't know
Our organisation will undergo significant M&A in the next year	0%	77%	23%
Our organisation will undergo significant M&A over the next five years	69%	15%	15%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	62%	31%	8%
Joint ventures and partnerships will be key to our expansion plans in Asia	69%	31%	0%
Our organisation will undergo a significant business disposal over the next five years	31%	62%	8%
Our organisation is already structured in the way we want	46%	54%	0%
Our organisation has a track record of success in M&A and restructuring	38%	54%	8%

Drivers of deals

Increasing market share is a key motivator for Singaporean firms – 69% say the ability to penetrate new geographical markets is a key goal of M&A. At the same time, 38% of Singaporean financial services' firms wish to secure more and better distribution. In-between, 46% see M&A as a means to improve shareholder value.

The main external driver for M&A will be the need to satisfy customer demand for more sophisticated products, according to 77% of respondents. Nearly a half (46%) of Singaporean firms see new market entrants from abroad as a significant enough concern to act as a spur to seek deals.

What will be the main external drivers of your organisation's M&A or restructuring activity over the next five years?	
Increasing customer demands (eg desire for higher yielding investments, branded product, open-architecture products)	77 %
Increasing competition from foreign players (eg new market entrants)	46 %
Increasing competition from domestic players (eg non-financial service market entrants, horizontal expansion of existing financial service players, price-cuts, threats to market share)	38 %
Slow growth in developed markets in comparison with emerging markets	31 %
Regulatory liberalisation (eg relaxation of ownership restrictions, convergence opportunities, new competitors)	31 %
Access to leading-edge operating practices (eg, better governance, technologies)	31 %
Higher costs (eg staff costs, cost of capital, property costs, IT costs)	23 %
Regulatory pressure to restructure or merge	8 %
Economic conditions in home market	8 %
Increasing shareholder demands (eg demand for transparent reporting and risk profile)	0 %
Taking advantage of potential currency movements (eg Renminbi revaluation, US dollar weakness)	0 %
None of the above; we do not expect to undergo M&A restructuring	0 %

Deal targets

Financial buyers are most likely to buy retail banks and securities companies today. But in five years' time the emphasis will shift to asset management firms and outsourcing service providers, as well as retail banks.

Singapore financial services' firms are likely to be acquisitive across the region in the next five years, with China, Indonesia and Vietnam the top targets (each chosen by 46% of respondents).

Obstacles to M&A

In common with many other Asian countries, 38% of respondents say local regulators are the biggest obstacle to deals. But, in addition, 31% say barriers are presented by managers not focused on increasing shareholder value – this percentage is higher than in other countries. Nearly one-third (31%) of respondents cite public sentiment as an obstacle to M&A – a result not noted elsewhere in Asia.

What are the main obstacles to increased M&A activity in the financial services sector in your country?	
Regulations and regulators' attitudes	38 %
Management goals; managers do not focus on increasing shareholder value	31 %
Public sentiment; fear of the public reaction to M&A	31 %
Capital/borrowing constraints	31 %
Familiarity; limited history of M&A in our chosen market	23 %
Cross-shareholdings; friendly shareholders protect managers	23 %
Corporate culture; the potential for corporate culture clashes in merged organisations	23 %
Tax issues	15 %
High pricing of M&A deals	15 %
Defensiveness; owners or managers resort to defence mechanisms to halt M&A activity	8 %
Regulations requiring joint ventures	8 %
Stakeholder opposition; protests from employees and business partners	0 %
Other, please specify	0 %

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