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Strategy in Action

Banking a deal

The successful execution of M&A deals in the financial services sector will result in a win-win situation for both bidder and vendors

A CHANGING competitive landscape due to more stringent regulations, technological disruptions and the shifting of wealth to Asia is forcing financial institutions in the region to scale up or divest business segments through mergers and acquisitions (M&As). "Financial institutions are also more open to collaborating with others including non-financial institutions to leverage each other's comparative advantage, particularly to achieve geographical coverage or to gain access to non-traditional customers," says Sam Kok Weng, Financial Services Deals Leader, PwC Singapore.

Financial institutions are under greater pressure than before to make M&As work. The trend of more covenants in financial services (FS) deals and more deals taking the form of transfer of assets or people and joint ventures or partnerships have created new challenges when integrating operations post-deal.

"Due to the broad range of financial products, complex regulations, differing local market practices and complex deal making in FS deals, experience and singular focus on working in FS deals are necessary for one to be called a FS Deals specialist," says Mr Sam.

PwC Singapore has 25 FS deal specialists in Singapore and they work with another 200 FS deals specialists across Asia to support Financial Institutions as well as Private Equity (PE) and Sovereign Wealth Funds (SWF) on their Financial Services portfolio during the various stages of a deal.

"For further specialist support, such as computing new IT spends to digitise the operations of the targets, determining actuarial reserves required for different insurance portfolios or loan loss rates in loan portfolios, we further draw on a pool of a few thousand financial services specialists within PwC in Asia," adds Mr Sam.

Deal origination requires a high level of discretion and deal negotiations can be a difficult and long-drawn-out process. "We act as financial advisers to broker deals or run the transaction process – this helps to preserve anonymity of buyers/targets and for the parties involved to focus on the relationship and not allow the emotions of deal negotiations to get in the way of deal making," says Mr Sam.

Where the sale of certain assets are required, PwC can also provide vendor assistance or vendor due diligence support, allowing bidders to have increased confidence on the deal process and allowing for the deal timetable to be compressed.

He adds: "Due diligence services allow you to evaluate the financial representations made by targets. Independent valuation services allow the boards of both buyers/targets to clarify their price expectations before making a decision."

Integration is key to success

When assessing M&A targets, Mr Sam believes that understanding business drivers and franchise value of the targets is key. "The ability to integrate the target, both culturally and operationally, is a



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Indeed, post deal integration and divestment efforts are critical to the success of any M&A. Due to regulatory approval requirements, banking secrecy rules and the complexity of IT systems, the time gap between transactions signing to closing can take three to 12 months.

During this period, there is a greater risk of loss of customers and personnel, both of which are valuable to the deal, explains Mr Sam. "Involving those operationally responsible to integrate the target at the target evaluation and due diligence phase will ensure continuing and seamless accountability from pre-deal signing to integration."

He adds: "More so than other industries, customers bank and insure with financial institutions they trust. As change in ownership creates uncertainty, communication with customers and their relationship counterparts in the financial institutions are particularly important during the integration period when the customers and staff are most vulnerable."

media data for customer profiling on another deal, to evaluating and proposing alternatives to bail out an insolvent insurer," he explains.

The largest deal process he has run was for the acquisition of a Chinese bank that required the deployment of over 200 PwC FS specialists.

"In the course of four weeks, we covered not just loan reviews in a few provinces, but also comprehensively reviewed the financials, operations, IT, risk management and governance and tax affairs of the target," he recalls.

Mr Sam's involvement in the majority of private banking transactions in the past few years has been particularly enriching for him.

He says: "Witnessing the shift and delivering the win-win outcome for both bidders and vendors shows that deal making can be value adding and help businesses to be individually sustainable in the long run."

|| This is the third instalment of a second five-part series 'Strategy in Action', which is brought to you by PwC

An Asean bank in the works?

SAM Kok Weng, Financial Services Deals Leader, PwC Singapore, shares his thoughts on the potential establishment of an Asean-centric financial institution (FI).

"The Asean Economic Community (AEC) is still in its infancy and there have been Asean-centric FIs in the past, albeit more in the trade finance and corporate lending areas. As such, the desire for an Asean bank is a very real and not just a romantic idea. A few universal banks that originate from one of the Asean countries have adopted Asean as its main geographical focus and seek to be known as 'the Asean Bank.'"

"As regulations evolve to support AEC in full and restrictions on foreign ownership changes, more banks would be able to more effectively and seamlessly operate in the region through local presence. With disruptions, an alternative 'Asean bank' may emerge, providing niche services across the whole region, leveraging on technology and partnership to achieve distribution access."



Financial institutions are using more external resources to execute the separation or integration of operations. Besides the need for specialist deal operations knowledge, day-to-day operations need to be maintained. "A dedicated post-deal team is on hand to help you prepare for the acquisition or divestment and to integrate or separate operations," continues Mr Sam.

A wealth of experience

Mr Sam has led over 100 financial services deals in the region, covering the full deal spectrum from market entry studies to being the financial adviser to both buy and sell side due diligence reviews and leading post-deal integrations and divestments. During this time, he has witnessed the turmoil and the heightened deal activity following both the Asian financial crisis of 1997-1999 to the great financial crisis in 2008, and worked with banks, insurers as well as PE and SWFs as they relocate their Asian portfolios.

"No two financial services deals are the same – I can be deal making on a fintech company one day, exploring the use of social