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Consumer credit*

	Credit cards	Payday lenders	Specialty finance/marketplace lending
Current market	Flat	Flat	Upward
We are seeing	Strategic M&A deals and financial sponsor interest	Strategic M&A deals	Strategic M&A deals and financial sponsor interest
Key drivers	□ Excluding megadeals, broadly, M&A levels have been adversely impacted by financial sponsor focus on more lucrative NPL investment returns □ Credit cards have a higher risk profile under the Consumer Rights Act 2015, and banks seek to dispose of non-core high-risk profile business units and move to distribution/white-labelling models □ Banks seeking to limit exposures to liability for mis-selling of PPI	□ Reduced profitability, following the FCA's imposition of price caps on high-cost short-term credit with effect from 2 January 2016 □ Increased operation costs, following the FCA's regulation of consumer credit firms with effect from 1 April 2014 □ Increased operating/ regulatory risks □ Increased litigation risks, following on from enhanced consumer protection rights under the Consumer Rights Act 2015	□ Success of marketplace lending securitisation, which has increased availability of capital and financial sponsor interest in providers □ Material successes in recent fund raisings mean larger players have well-stocked M&A war chests □ More partnerships, as established banks actively seek access to new customer bases. Established banks' confidence seem to have recovered, although they are now more focused on adequate diligence before entering into joint ventures
Trends to watch	□ Interest in consumer credit portfolios from trade consolidators and private equity	□ 'Thinning of the herd'	□ Increased consolidation activity □ Growth of new and established lenders driven by government support for responsible alternative finance for SMEs □ As Brexit looms, specialty finance providers have perhaps found their niche as providers of alternative finance for SMEs and short-term finance for consumers, while High Street banks focus more on high-value commercial lending □ M&A activity has been dampened by heightened regulatory investigation/enforcement action and consumer litigation risk. Are poor internal systems and controls systemic across internet-based consumer lending platforms?
Our M&A forecast	▲▲▲△△ M&A activity levels to remain relatively steady	▲▲▲▲△ An increase in M&A activity driven by market participants upscaling to meet increasing operating costs and lower profit margins, and diversifying their product/ service offering	▲▲▲▲△ An increase in M&A activity from market participants which have enjoyed first-mover advantage, but that increase may take a while. Market participants are likely to focus on their own product/service offerings and distribution models, and reorient themselves to comply with expected p-2-p lending regulations, in the short term

*Consumer credit markets differ substantially across Europe. This section focuses on the UK given significant levels of M&A driven by regulatory change and the resulting investor behaviour.

> **"With many larger banks focusing on corporate lending, consumers are turning to alternative finance sources, potentially heralding a new era of inorganic growth for specialty finance businesses**

Publicly reported examples

Credit cards/consumer credit	
Banks seeking to dispose of non-core high-risk profile business units	□ Bank of America Corp's disposal of MBNA (May 2017) □ Banco Popular Español's disposal of Popular Servicios Financieros (May 2017) □ Banco Popular's proposed disposal of WiZink (April 2017) □ Banco de Sabadell's disposal of its consumer credit portfolio (December 2016)
Banks seeking to limit exposures to liability for mis-selling of PPI	□ Lloyds Banking Group reportedly considered terminating negotiations to acquire MBNA due to concerns of a £4 billion fine for PPI mis-selling (October 2016)
Interest in consumer credit portfolios from trade consolidators and PE	□ Lloyds Banking Group's acquisition of MBNA (May 2017) □ DSO group's acquisition of Effico (February 2017) □ MasterCard's acquisition of VocaLink Holdings (April 2017)
Payday lenders	
Reduced profitability of payday lenders	□ Wonga Group reported c. £80 million of losses in 2015 (May 2016)
Increased operating/regulatory risks for payday lenders	□ £220 million fine for Wonga, £20 million fine for Cash Genie and £15.4 million fine for Dollar Financial (June 2016)
Increased litigation risks for payday lenders	□ Dollar Financial was forced to repay customers of Money Shop, Payday UK, Payday Express and Ladder Loans (November 2015)
'Thinning of the herd'	□ CFO Lending's collapse into administration (April 2017) □ Wonga's disposal of BillPay (February 2017)
Specialty finance/marketplace lending	
Success of marketplace lending securitisation	□ Marketplace lending securitisations have remained a bright spot in the ABS market. Total issuance topped US$3 billion in Q1 2017 with cumulative issuance totaling US$18 billion across 80 deals (May 2017)
Increased consolidation activity in specialty finance/marketplace lending	□ Ekspres Bank's acquisition of Sevenday Finans (June 2017) □ 1pm's acquisition of Tracx Finance (May 2017)
More partnerships in specialty finance/marketplace lending	□ Lending Club's share price rose 17 per cent in Q4 2016 (December 2016) □ Barclays, Royal Bank of Scotland, Lloyds, HSBC and Natixis injected £325 million into Together (March 2016)
Growth of new and established lenders	□ Zopa raised £32 million from investors including Wadhawan Global Capital and Northzone (June 2017) □ RateSetter raised £13 million from investors including Neil Woodford and Artemis (May 2017)
Specialty finance providers find their niche	□ Zopa applied for a banking licence to provide a wider range of credit products (December 2016) □ Trade Finance Solutions announced plans to acquire bolt-on targets in Europe (August 2016)