

# UK consumer crunch

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## **Financial institutions M&A: Sector trends**

### **Credit cards:**

Tougher rules and public scrutiny give dealmakers reason for pause

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### **Payday lenders:**

The UK watchdog keeps M&A in check

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### **Specialty finance and marketplace lending:**

Stratospheric possibilities, as the first wave of platforms poise for IPO

# UK consumer finance\*

Regulation has put the brakes on deal activity involving credit card providers and payday lenders, but specialty and marketplace lenders are continuing to attract large amounts of strategic and private equity interest.

## Overview

	CURRENT MARKET	WE ARE SEEING	KEY DRIVERS
 <p><b>Credit cards/ Consumer credit</b></p>	Upward, marginal	Strategic and financial sponsor-led M&A	<ul style="list-style-type: none"> <li>□ Healthy buyer appetite from trade consolidators and financial sponsors</li> <li>□ Banks seeking to dispose of non-core businesses:               <ul style="list-style-type: none"> <li>- Concentration on core business lines and geographies</li> <li>- Increased operational risks (e.g., fraud)</li> <li>- Regulatory pressure to increase transparency and competition in the consumer credit sector</li> </ul> </li> <li>□ Movement towards distribution/white-labelling models</li> </ul>
 <p><b>Payday lenders</b></p>	Flat	Some financial sponsor support	<ul style="list-style-type: none"> <li>□ Financial sponsors remaining keen on rich returns from near-prime, subprime and thin credit file borrower demographics</li> <li>□ Increased operating and regulatory pressures—the UK FCA continues its active drive to reform and abate perceived harm to potentially vulnerable consumers</li> </ul>
 <p><b>Specialty finance/ Marketplace lending</b></p>	Upward, significant	Financial sponsor-led and strategic M&A	<ul style="list-style-type: none"> <li>□ Expanding universe of potential investors, including financial sponsors, banks and trade consolidators</li> <li>□ JVs and other business partnerships between market participants and service providers</li> <li>□ 2017 fund-raising successes means larger players have well-stocked M&amp;A war chests—larger players are expanding inorganically, while smaller ones yield to competition</li> <li>□ Growth of new lenders, encouraged by the UK government's support for responsible consumer/SME alternative finance</li> </ul>



## The UK specialty finance market is at an inflexion point. If first movers successfully IPO, access to additional capital would boost credit availability for SMEs and consumers, as well as the ABS market.

– Ashley Ballard

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Partner, London  
EMEA M&A Group



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## Our M&A forecast

### TRENDS TO WATCH

- Increasing regulatory burden (e.g., the UK FCA's new rules, which take effect on 1 September 2018, require credit card providers to effect a 3-year recovery process for customers in financial difficulty, ultimately requiring forbearance through reduction, waiver and/or cancellation of interest, fees and charges)
- Credit card providers taking a more active role in policing 'harmful' consumer purchasing behaviours

- Continuing high levels of regulatory scrutiny and intervention:
  - Particularly across overdrafts, catalogue credit, doorstep lending and rent-to-own products, which the UK FCA has identified as raising concerns
  - Possible expansion of the UK regulatory perimeter (e.g., introduction of price capping across more high-cost credit products)
  - Public outcry to end 'mega-margin' lending (e.g., Labour's campaign against high-cost credit cards)
- Diversification by market players with healthier balance sheets and customer practices
- Growth in the medium-term loan market

- The UK market is at an inflection point:
  - First movers are poised for IPO. If IPOs are successful, that could lead to marketplace lending securitisations becoming more of a bright spot, akin to the US asset-backed securities market
  - As UK peer-to-peer lenders transition from interim to full UK FCA authorisation, that increases the scope for growth through product diversification (e.g., LendingCrowd's launch of Innovative Finance ISAs)
- Increased single market harmonisation and regulatory oversight (e.g., European Commission's Action Plan to assist EU crowdfunding growth)



**There are deals to be done, but activity will remain steady at best as regulation weighs on credit card providers. The UK FCA estimates its new rules could cost providers anywhere between £310 million and £1.3 billion per annum. Buyers are understandably cautious as a result**



**Players with sound customer practices will continue to attract investment and win market share. However, for most payday lenders, the focus is on bringing internal business practices into line with the UK FCA's requirements rather than deal-making**



**High levels of M&A activity as market participants seek to capitalise on their first-mover advantages. Brexit may also present a unique opportunity for speciality finance—while High Street banks focus more on high-margin corporate lending, speciality finance businesses can strengthen their position in SME and consumer lending niches**

\*Consumer finance markets differ substantially across Europe. This section centres on the UK (but not exclusively), given significant levels of M&A driven by regulatory change and the resulting investor behaviour.

# UK consumer finance – Publicly reported deals & situations



## Credit cards/ Consumer credit

Healthy buyer  
appetite

### Deal highlight

**Tesco's departure limits Irish credit card consumer choice to just six providers. Avantcard has rapidly accumulated market share, having only arrived in Ireland in 2012 through the acquisition of Carrick-on-Shannon-based MBNA**

### Trade consolidators:

#### SIA

Acquisition of First Data's card processing European operations (May 2018)

#### Santander

Acquisition of WiZink's Portuguese debit and credit card business (May 2018)

#### Avantcard

Acquisition of Tesco Bank's Irish credit card portfolio (April 2018)

#### Sovcombank

Acquisition of Sovcomcard (April 2018)

### Private equity:

#### Goldman Sachs

Acquisition of Final and Clarity Money (January – April 2018)

#### Värde Partners

Acquisition of the remaining 49% of WiZink (March 2018)

#### Elliott Advisors

Investment in Chetwood Financial (March 2018)

Banks  
disposing  
of non-core  
businesses

#### Tesco Bank

Disposal of Irish credit card portfolio (April 2018)

#### Banco Popular Español

Sale of 49% of WiZink (March 2018)

#### Bank Leumi

Ongoing disposal process for its controlling interest in Leumi Card (February 2018)

#### Bank Hapoalim

Disposal process for Isracard (February 2018)

#### Prudential

Disposal of Prudential Vietnam Finance Co. (January 2018)

Increasing  
operational  
risks

### Inadequacy of automated accounting systems:

#### Citigroup

Refund of US\$335m to its credit card customers (February 2018)

### Growing fraud risk:

#### Revolut

Launch of single-use virtual cards (March 2018)

**Restrictive  
business  
practices**

**Virgin Money**

Ban on credit card customers purchasing bitcoin *(February 2018)*

**Lloyds**

Ban on credit card customers purchasing bitcoin *(February 2018)*

**Monzo**

Phase out of fee-free overseas prepaid Mastercard *(January 2018)*

**Wider market  
influence**

**Regulatory burden:**

**Credit card charges on financially distressed customers**

UK FCA's new rules for imposing charges on credit card customers in financial difficulty *(February 2018)*

**Bank consumer credit risk reporting**

UK PRA's requirement on banks to improve consumer credit risk reporting *(January 2018)*

**Political pressure:**

**84 MPs and Which?**

Petition to the UK FCA to restrict 'exorbitant' unarranged overdraft charges *(June 2018)*



**Payday lenders/  
High-cost credit**

**Continuing  
PE support**

**Apollo and Värde Partners**

Consortium acquisition of OneMain *(January 2018)*

**Victory Park**

£35m debt investment into Oakam *(January 2018)*

**Regulatory  
pressure**

**High-cost credit products**

UK FCA's update on high-cost credit highlighted the need for

increased consumer choice of high-cost credit options as well as concerns relating to certain

existing products (e.g., rent-to-own and home-collected credit) *(January 2018)*

**Increased operating risks**

**Provident Financial**

£170m customer compensation and £2m fine relating to failures in informing customers of the true cost of its repayment option plan add-on product (February 2018)

**Payday UK**

Compensation of £75 per customer for erroneous credit searches (January 2018)



**Specialty finance/  
Marketplace lending**

**Market inflexion point**

**Deal highlight**

**Amigo Loans is amongst the first to take the plunge\***

**Upcoming IPOs:**

**Amigo Loans**

Announcement of LSE free float of ≥25% (June 2018)

**LendInvest**

Near-term sights on LSE IPO (May 2018)

**Funding Circle**

Preparations for LSE IPO (January 2018)

**Success of US marketplace lending securitisation:**

US\$4.3bn of total issuance in Q1 2018. Up 34% from Q1 2017. Cumulative issuances of US\$33.4bn across 114 deals since 2013\*\*

**SoFi, Prosper, Lending Club, Marlette and CommonBond** MPL securitisations\*\*\* (January – March 2018)

**Growing buyer interest**

**Private equity:**

**Kinnevik**

Equity investment into Pleo (May 2018)

**Quilam Capital**

Equity investment into 1plus1 Loans and Catfoss Finance (February – May 2018)

**White Oak**

Acquisition of LDF (April 2018)

**Cerberus Capital**

Acquisition of Bluestone Holdings Australia (February 2018)

**Finstar**

Equity increase in Spotcap (February 2018)

**Strategic:**

**Banca Sella**

Acquisition of Vipera (April 2018)

**Trade consolidators:**

**Paragon**

Investment into Liberis and acquisition of Iceberg (January – April 2018)

**'Survival of the fittest'**

**Expansion:**

**Bibby Financial Services**

Application for Irish FX licence  
(May 2018)

**Marcus**

Expansion in the UK and Germany  
(May 2018)

**Liberis, Supply Finance and Unity Trust Bank**

Successful fund raisings in H1 2018  
(April 2018)

**Banco BNI Europa and Varegold Bank**

Investment into MarketInvoice  
(March 2018)

**EstateGuru**

Launch into Finland and Spain  
(February 2018)

**Octopus Property**

Bridging loan JV with Acuitus Finance  
(February 2018)

**Funding Circle**

UK SME lending JV with Citibank, US SME lending JV with Intrust Bank and German SME lending JV with Banco BNI Europa  
(January 2018)

**Exiting the market:**

**Collateral**

Entry into administration  
(March 2018)

**RateSetter**

Exit from unsecured business loans market  
(January 2018)

**New entrants:**

**Orange Bank**

Launch of mobile subscription personal loans offering  
(March 2018)

**TSB**

Lending marketplace JV with Funding Options  
(March 2018)

**Triodos Bank**

Launch of its crowdfunding platform  
(February 2018)

**City of London Group**

Banking licence application to offer SME and development loans  
(January 2018)

**Vertical integration**

**Bank of Ireland**

UK mortgage intermediary services JV with The Post Office  
(April 2018)

**TSB**

Customer credit history improvement JV with LOQBOX  
(April 2018)

**PrePay Solutions**

Business accounting and banking JV with Countingup  
(April 2018)

**Enra Group**

Acquisition of Vantage Finance  
(January 2018)

\* White & Case LLP acted on this transaction

\*\* US transactions. Included for illustration of a possible future European trend

\*\*\* Source: PeerIQ (April 2018)

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