

# The face of consumer finance is changing

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**Financial Institutions M&A:  
Sector trends H2 2018 | Outlook for 2019  
Consumer finance**

**Credit cards:**

Buyers scrutinise historic compliance weaknesses/strengths as well as potential impact of any upcoming regulatory changes before taking the plunge

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**Payday lenders:**

As one door closes, another opens—providers of alternative credit options step up to fill the void left by payday lenders crushed by the UK FCA's interest rate caps

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**Specialty finance and marketplace lending:**

Technology-led market metamorphosis continues at pace

# Consumer finance:<sup>\*</sup> Credit cards/Consumer credit

Deal activity involving credit card businesses blooms—  
trade consolidators, financial sponsors and big banks  
see opportunities

## Overview

### CURRENT MARKET

Upward,  
marginal

### WE ARE SEEING

Trade consolidator and late-stage PE-led M&A

### KEY DRIVERS

- Healthy buyer appetite from:
  - Trade consolidators—seeking scale and product range
  - Financial sponsors—disrupting sleepy incumbents and turning a profit
  - Big banks—international exposure and access to new cross-selling opportunities
- Sellers feeling the pressure:
  - To offload “riskier” consumer credit offerings
  - From regulators for increased market competition
- Rise of white-labelling models

**Ashley Ballard**  
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**Specialty finance is now viewed as a mainstream source of credit by SMEs, which has encouraged the rapid growth of lending platforms and success of direct-lending funds across Europe. Specialty finance will thrive as credit assessment criteria continue to hamper established banks.**

## Our M&A forecast

### TRENDS TO WATCH

- Competition from new fintech entrants, keen to expand into banking products and services (e.g., Klarna, Marqeta, etc.)
- Increasing risks associated with card businesses:
  - Heightened regulator intervention in M&A (e.g., UK CMA's Phase 2 review of PayPal's acquisition of iZettle)
  - Heightened regulator intervention in operational matters (e.g., European Commission's probe into interchange fees charged on tourists' card payments)
  - Heightened government social prerogatives (e.g., proposal for stricter mandatory credit assessment rules for consumer credit in Norway)
  - Heightened litigation risk—retailers clubbing together to stop abusive dominant behaviour (e.g., Visa's and MasterCard's ongoing legal battle relating to unlawful swipe fee levels)



**Lucrative M&A opportunities exist. However, competition is stiff for assets where governments/regulators are seeking to instil market competition by encouraging sellers to offload businesses. Buyers need to carefully assess existing compliance strengths and weaknesses of targets as well as the potential impact on profitability of any upcoming regulatory changes.**

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

# Consumer finance: Payday lenders

The sun continues to sets on deal activity involving payday lenders, as the UK FCA's interest rate caps crush profit margins

## Overview

### CURRENT MARKET

Decline

### WE ARE SEEING

Dwindling financial support

### KEY DRIVERS

- Deal-making has slowed as financial sponsors focus capital on more lucrative areas within the European financial services landscape
- Increased operating and regulatory pressures—the UK FCA continues to heap pressure on the remaining market players to atone for perceived harm to vulnerable consumers

## Our M&A forecast

### TRENDS TO WATCH

- New entrants stepping up to service the market segment left vacant by exiting payday lenders:
  - Dynamic loans—interest rates decline in proportion to credit score increases (e.g., Chetwood Financial’s Livelend product)
  - Short-term loan options by regulated deposit-taking institutions (e.g., Monzo)
  - Micro-lending—smaller amounts to be repaid over several months (e.g., Oakam)
- Decline of predatory businesses practices and unjustifiably high interest rates
- High levels of regulatory oversight:
  - Possible expansion of the UK regulatory perimeter (e.g., introduction of price-capping across more high-cost credit products)
  - Active policing of customer complaints handling and mis-selling compensation payment plans



**The UK FCA has crippled mega-margin lending across the country. However, market players with safer, consumer-centric business practices may rally to avoid certain consumers being locked out of credit markets or pushed into other forms of high-cost loans.**

# Consumer finance: Specialty finance/ Market place lending

The sun rises on M&A in the specialty finance space—support from established banks, financial sponsors, trade consolidators and local governments turbocharges deal-making

## Overview

### CURRENT MARKET

Upward, significant

### WE ARE SEEING

Shaken, not stirred—cocktail of established banks, financial sponsors and trade consolidators actively involved in M&A

### KEY DRIVERS

- Expanding universe of potential investors:
  - Established banks—embracing the digital revolution, including through deployment of multi-boutique structures
  - VC and late-stage PE—opportunity to capture an under-serviced markets
  - Trade consolidators—conquering their own niches
  - Governments—credit availability for SMEs
- Successful IPOs, despite challenging capital market conditions
- Growth capital for market players—successful capital raisings have provided funding for organic expansion by smaller players and M&A firepower for first-movers
- Growth of new lenders, encouraged by government support for alternative finance for SMEs (e.g., Spanish Law for Promotion of Entrepreneurial Financing)

## Our M&A forecast

### TRENDS TO WATCH

- Market at an inflection point:
  - First movers (including Amigo and Funding Circle) have enjoyed successful IPOs. Listed platforms will have access to capital necessary to turbocharge expansion plans
  - Traditional asset managers seeking to utilise peer-2-peer platforms for large-scale capital deployment (e.g., Waterfall AM's funding of £1 billion of SME loans through Funding Circle)
  - Governments ensuring debt funding for SMEs through peer-2-peer platforms (e.g., British Business Bank's £150 million SME funding commitment through Funding Circle)
- Consolidation of Europe-focused direct-lending funds



**High levels of M&A activity as established banks, financial sponsors and trade consolidators vie for market share amidst growing market demand. If "no-deal" Brexit replays the credit crunch, specialty finance will become an increasingly important source of working and growth financing for SMEs.**

# Consumer finance—Publicly reported deals & situations



## Credit cards/ Consumer credit

Healthy buyer  
appetite

### Deal highlight

**White & Case advised one of the bidders for Israel's largest credit card business, Leumi Card, ultimately acquired by Warburg Pincus**

### Deal highlight

**White & Case advised SIA, a European leader in the payments infrastructure space, on its €375 million acquisition of First Data Slovakia and First Data Hellas Processing Services**

### Trade consolidators:

#### La Banque Postale

Acquisition of 35% of La Banque Postale Financement  
(December 2018)

#### Agos Ducato

Acquisition of Profamily  
(December 2018)

#### BGL

Acquisition of Saverd  
(October 2018)

#### SIA

Acquisition of First Data Corp's CEE card processing businesses  
(October 2018)

#### Zmarta Group

Takeover offer for Insplanet  
(September 2018)

### Strategic investors:

#### Bankinter

Acquisition of AvantCard  
(September 2018)

#### Private equity:

#### Warburg Pincus

Acquisition of Leumi Card  
(July 2018)\*

New fintech  
entrants

#### Chetwood Financial

Liveland dynamic loan JV with ClearScore  
(November 2018)

#### Marqeta

Payment cards and processing JV with Visa  
(October 2018)

#### Klarna

Launch of payment card  
(July 2018)

Increasing  
operational  
risks

### Litigation risk:

#### Future Finance

Payment of €2 million compensation to customers for UK Consumer Credit Act breaches  
(July 2018)

#### Visa and MasterCard

UK Court of Appeal's landmark judgment in favour of a group of British retailers relating to unlawful swipe fee levels  
(July 2018)

### Regulator intervention:

#### PayPal-iZettle

Phase 2 review of PayPal's acquisition of iZettle by UK CMA  
(December 2018)

#### Visa and Mastercard

Offer of cap on interchange fees charged on tourists' card payments in response to European Commission probe  
(December 2018)



**Wider market influence—new regulatory burdens**

**Norwegian Financial Services Authority**

Proposal for stricter mandatory credit assessment rules for offer of consumer loans and credit cards in Norway (*September 2018*)

**UK Payment Systems Regulator**

Launch of wide-ranging investigation into limited competition within the UK's card industry, with a focus on card-acquiring services (*July 2018*)



**Payday lenders/  
High-cost credit**

**Bullish PE support**

**Wonga**

£10 million rescue by Accel Partners and Balderton Capital, ahead of collapse into administration (*August – September 2018*)

**Increased operating risks**

**UK FCA**

Order on payday lenders to bring forward customer compensation for mis-sold loans, notwithstanding insolvency concerns (*October 2018*)

**CashEuroNet UK**

Customer complaints increased by >200% in H1 2018 (*September 2018*)

**QuickQuid**

Customer complaints increased threefold in H1 2018 (*September 2018*)

\*Non-EU transaction. Included for illustration of possible future European trends.



## Specialty finance/ Marketplace lending

### Growing buyer/ investor/ partner interest

#### Private equity/venture capital:

##### Zopa

Successful £60 million funding round (led by Augmentum, Northzone and Bessemer) and £44 million funding round (led by Wadhawan Global Capital) (August – November 2018)

##### Divido

Successful US\$15 million Series A funding round, led by Dawn Capital and DN Capital (September 2018)

##### LendInvest

Successful US\$40 million funding round, led by Atomico and GP Bullhound (September 2018)

##### KKR

Dutch and German SME lending JV with NEOS and Schroders (August 2018)

#### Ares

Raise of €6.5 billion European direct lending fund (July 2018)

#### Governments:

##### UK British Business Bank

£150 million of funding for Funding Circle (November 2018)

#### Management:

##### Crowdhouse

Partial MBO (December 2018)

#### FI:

##### Liberbank

Spanish business participation JV with October (December 2018)

##### BAWAG

Acquisition of BFL Leasing (December 2018)

##### Bank of New York Mellon

Investment of £300 million into ThinCats (September 2018)

#### Poštová banka

Acquisition of Amico Finance (August 2018)

#### Trade consolidators:

##### abcfinance

Acquisition of G.R. Factoring (December 2018)

##### EC Financial Services

Acquisition of JET Money (September 2018)

##### City of London Group

Acquisition of Acorn to Oaks (July 2018)

##### White Oak

Acquisition of LDF (July 2018)

##### Paragon Banking Group

Acquisition of Titlestone Property Finance (July 2018)

### Vertical integration

#### Waterfall Asset Management

SME loan funding JV with Funding Circle (December 2018)

#### Anaxago

Launch of Anaxago Capital (September 2018)

Market  
inflexion point

**Deal highlight**

**White & Case advised Amigo Holdings PLC, the leading company in the UK guarantor loan space, on its £1.3 billion IPO on the London Stock Exchange**

**IPOs:**

**Fellow Finance**

Nasdaq First North IPO at €55 million valuation  
*(October 2018)*

**Funding Circle**

LSE Main Market IPO at £1.504 billion valuation  
*(September 2018)*

**Amigo**

LSE Main Market IPO at £1.3 billion market valuation  
*(June 2018)*

**Expanding horizons:**

**Zopa**

Successful grant for UK banking licence  
*(December 2018)*

Regulators roll  
up their sleeves

**ECB**

Proposal for stricter scrutiny of investment funds and other firms across the EU's shadow-banking industry  
*(September 2018)*

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