Browne Jacobson

Merger and Acquisition trends in the specialist lending market

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In this update, we look at what is behind the recent drive in Merger & Acquisition (M&A) activity involving high street lenders, Private Equity (PE) Houses, FinTechs and other specialist lenders. We also analyse the benefits that M&A activity offers to businesses and the touch upon the impact this trend is having on the competitive landscape.

Drivers behind the surge

You can dissect the most recent surge in M&A activity down to two simple things, control and digitisation. Retail banks, especially those overexposed to those sectors hit the hardest in the pandemic, are in a bid to return to pre-pandemic profit levels but are facing increasing pressure from non-traditional lenders.

The market is also rapidly digitising which means fintech adoption is on the rise as businesses and individuals seek out more productive, accessible and cheaper services as opposed to those offered by traditional financial institutions. This has led to a surge in M&A activity as players in this space such as “neo-banks” and cryptocurrency firms merge with, or acquire, their competitors in a bid to control the market. Technology businesses are also capitalising on the movement to digitised financing platforms and are making bids to buy banks in an effort to gain a market share.

With so many new players breaking through, traditional financing such as high street lenders and private equity firms are being forced to diversify and grow to maintain control. PE firms are busy buying up banks, whilst retail banks are turning to strategics partnerships and joint ventures to help accelerate and strengthen their offering to their customer base and scale-up.

The benefits that M&A activity offers companies

In a post pandemic world, companies are dealing with agile workforces, tighter budgets and the increasing pressures of sustainability and the country’s net zero promise. The recent M&A activity in the finance space can offer companies both confidence and choice. Confidence, in the sense that the market is moving in order to adapt to the changing needs of its customers, and choice; the ability to choose from multiple products to fit their needs as opposed to the heavily dominated traditional lender market of 10 years ago.

Fintech acquisitions are creating unique product offerings for business, particularly those in the retail and online shopping space who are now, more than ever, seeking technology and Artificial Intelligence (AI) product solutions. It’s also easy to see the benefits offered from “Buy Now Pay Later” providers and “neo-banks” emerging from the activity in this space, with the capability of offering companies zero interest fees and no overdraft penalties.

Couple this with PE mergers, which are bringing bold investments and large amounts of equity to the market without the typical regulatory constraints, and the benefits of high M&A activity are easy to see.

The impact on the competitive landscape and the customer

Customers are expecting more from their providers as the landscape transforms and refocuses. This has only fuelled M&A activity further with players looking to create strategic partnerships and buy out the competition in a bid to stay at the forefront of customer demand.

The complexity/nuances that the pandemic has brought to companies, and the uncertainty of the impact the economic rebound will have on a business credit profile, has made it more difficult for certain companies to obtain credit from traditional sources. This has created a thriving private equity and challenger bank deal space where customers are breaking long established relationships to benefit from the flexibility and speed on offer from these alternative competitors.

It has also encouraged businesses not previously operating in the finance sector to expand and compete, responding to new digital and technology requirements and capitalising on gaps left in the market by current players.

Future predictions

The industry continues to face a plethora of pressures including rising interest rates, ongoing digital and technology transformation and regulatory changes. Add this to the continued increase and growth of alternative lenders, fintech's and brokers, and it becomes quite clear that the current M&A trend will only gather pace in the months and year to come.

We also can't down-play the impact of environmental, social, and corporate governance commitments on the finance industry. Net zero commitments will start to have a noticeable effect on the way both traditional and non-traditional institutions approach business and lending, and it's likely that we will start to see a rise in M&A activity driven by sustainability initiatives.

In addition, businesses with an increased need to control their supply chains in the current turbulent market will be seeking greater flexibility and support from finance providers in their bid to control costs and improve efficiency. With the market changing and transforming with speed, more and more operators in this sector will turn to acquisitions in order to support and aid their own transformations. Regardless of how they do it, traditional and non-traditional lenders alike will need to transform to keep up with the pace of change which will only add fuel to an ever-growing M&A fire.

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