AUG 03

Will Paige

UK banks weighing deals despite looming threat of recession

Article

The trend: Three of the UK's big four banks are on the lookout for acquisitions despite a climate of economic uncertainty and fears of a looming recession in the country.

Dealhunters:

- **Barclays** is aiming to grow its wealth management business in Asia and Africa, saying it wants to cater to the super-rich in the regions. Jean-Christophe Gerard, the CEO of Barclays' private banking arm, said the lender wants to buy assets to grow its presence in regions like Singapore.
- **NatWest** is reportedly considering a bid for wealth management firm **Quilter** in what would be the biggest deal for the lender since the financial crisis. The bank is also reportedly considering bids for other financial services firms, according to the Daily Mail.
- **Lloyds** is exploring buying up more fintech firms to grow its digital offering, according to CEO Charlie Nunn. Lloyds said it was monitoring developments in the buy now, pay later (BNPL) market, which it has yet to enter.

Why now? Reasonably solid first half results and wider market forces are creating a launchpad for UK lenders to seek acquisitions.

1. **Funding is down:** Fintechs are having a harder time attracting cash as financing dwindles. Funding dropped by one-third quarter-over-quarter (QoQ) in Q2, per CB Insights, and companies may view being bought out by an established bank as a more appealing option than having to raise fresh funds. Banks could take advantage of plunging fintech valuations to snap up smaller firms at a cut price.
2. **Resilient first halves:** NatWest enjoyed a strong H1, with pretax profits up 13%, and Lloyds beat expectations to see net income rise sharply from last year. Barclays reported a 24% drop in pretax profit due to a credit impairment charge, but generated a 17% rise in total income. The broadly positive results will give UK incumbents confidence that they can weather a harsher market while also providing a gentle reminder that it could be a good time to seek growth through bolt-ons.
3. **Threat of a downturn:** A feared recession is forcing banks to look for growth externally. Barclays is targeting super-wealthy private clients in markets like Singapore, which will be far less affected by a downturn than domestic retail lending customers. NatWest's possible expansion to focus on "mass affluent" consumers will similarly help future-proof it against market slumps. And Lloyds' focus on tech can help it improve digital services to minimize damage caused by wider economic declines.

Our take: Incumbents will be wary of a harsher second half as funding cools and inflation remains at record-high levels. But they'll recognize that creaking markets will create opportunities for deal-savvy banks to diversify, spread risk, and protect themselves against future economic declines by scooping up firms at a discount.