

M&A THEMES IN THE FINANCIAL SERVICES SECTOR 2025

In 2024, behind only the US, the UK led financial services (FS) M&A by deal value at £95.5bn, followed by China at £81.8bn. Germany, France and Spain averaged around £30bn each, while FS M&A in the Middle East was quieter after the mega-mergers of recent years. In 2025, we expect M&A in the Financial Services sector to be driven by a mix of strategic priorities and evolving economic conditions, including the following trends:

- Continuing consolidation in the banking, asset management and insurance sectors
- Acquisition of technological capabilities
- Portfolio rebalancing in the banking sector

Key for the examples

- Deals where Addleshaw Goddard have advised
- Wider market deals

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1. Continuing Consolidation

In 2024, the banking sector witnessed sustained momentum in M&A activity, propelled by various economic and regulatory factors aimed at fostering growth and diversification. This was matched with a broader pattern of consolidation and strategic realignment across the financial services industry in areas including insurance and wealth management.

Observations for banks

M&A activity surrounding banks continued apace in 2024. Consolidations are being driven by an uncertain environment for interest rates, cost burdens, regulatory changes and the necessity to grow and diversify revenue sources.

The following deals in the UK illustrate this consolidation and growth trend:

- **Coventry Building Society's £780m acquisition of the Co-operative Bank.**
- **Nationwide's £2.9bn acquisition of Virgin Money.**
- Barclays' £600m acquisition of Tesco Bank.
- NatWest's acquisition of Sainsbury's Bank's core banking portfolio.

In mainland Europe, 2024 was also a strong year for bank mergers. We expect European banks to continue consolidation in 2025. In Spain, BBVA's \$13bn hostile bid for Banco Sabadell, the country's third-largest bank by assets, is expected to be the main M&A transaction in Spain in 2025. In December 2024, Italy's UniCredit raised its stake in Germany's Commerzbank to 28% and is also pursuing a €10.1bn all-share bid for smaller Italian rival Banco BPM.

We have also seen mega-mergers elsewhere, particularly in the Middle East in recent years, to reduce fragmentation and build scale (e.g. creation of First Abu Dhabi Bank in 2016, the 2019 tripartite merger of ADCB, UNB and Al-Hilal Bank and the 2021 creation of Saudi National Bank).

Observations for insurers

While M&A activity has been more muted amongst insurers, there continues to be interest in the sector as a home for capital, across Europe. Amongst insurance carriers themselves, strategic shifts have prompted deal activity, most notably Aviva's "capital light" strategy and most recently its bid for Direct Line. The bulk annuity market remains buoyant, and deal volumes are expected to be in the vicinity of £60bn for 2025. Interestingly, deal activity in the UK at the sub-£100m level has seen a marked increase, with fewer £1bn+ deals – the latter included PIC's £1.3bn buy-in with the Coats UK Pension Scheme. 2024 also saw a number of new entrants to this market, including Royal London, M&G and Brookfield.

Given the scale of the opportunity – with £1.5tn of assets under management in the defined benefit space, we expect the investment of additional capital into the market. Intermediary activity continues – for example, in 2024 Permira alongside Hg invested in GGW Group, one of the leading European insurance brokerage platforms.

Observations for wealth managers

Asset management firms are merging as well to alleviate cost pressures and benefit from economies of scale. For example, **AG advised long standing client Rathbones on its all-share combination with Investec to buy its discretionary wealth management business** creating a business valued at £2bn and with funds under management and administration of £100bn.

We are expecting further consolidation in the banking and wider financial services sectors to continue into 2025.

2. Acquisition of technological capabilities

Banks and asset managers are focused on enhancing digital offerings, streamlining operations, and improving customer experiences. In recent years fintech valuations have stabilised, making them attractive acquisition and investment targets. BNP Paribas recently reported that there were 70 acquisitions of fintechs by 39 traditional banks in Europe in the ten-year period between 2014 and 2024*. We expect this trend to continue across the sector.

Acquisitions of technological capabilities in the financial services market in 2024 included:

- GoCardless' acquisition of Sentenial Limited operating under the Nuapay brand from EML Payments Limited.
- Amundi's acquisition of Aixigo, a digital financial consulting software provider based in Aachen, Germany, for €149m.
- UniCredit's acquisition of cloud IT platform Vodeno and digital bank Aion Bank, to achieve end-to-end Banking-as-a-Service (BaaS) for both financial and non-financial companies across Europe.

* <https://group.bnpparibas/en/news/fintech-acquisitions-by-traditional-banks-review-of-the-decade-2014-2024>

3. Portfolio Rebalancing

Financial institutions are increasingly divesting non-core assets to streamline operations and concentrate on core markets and higher margin offerings. Carving out units as standalone entities may also generate more shareholder value.

We expect carve outs and divestments to continue, particularly in the banking sector.

Examples of portfolio balancing in 2024 included:

- Santander UK's sale of a £277m unsecured charged-off debt portfolio to Cabot Financial (UK) Limited.
- Société Générale's disposal of stakes in Shine, certain SocGen businesses in Africa and SocGen Equipment Finance.
- Standard Chartered's announcement that it is exploring a potential divestment of its wealth and retail banking operations in Botswana, Uganda and Zambia.

We have a large team of lawyers focused on financial services M&A globally. If you would like a more comprehensive view of what we're seeing in the current environment, and what steps you should take to increase your chances of success, please get in touch with **your usual Addleshaw Goddard contact** or, alternatively, **Hardeep Plahe, Corporate Partner, hardeep.plahe@addleshawgoddard.com**. Our team is looking forward to helping you.

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