# Evolving landscape

Consolidation among lenders and the proliferation of fintechs is driving change in the Irish and UK banking sectors. **Angela Sharda** investigates the impact on the jurisdictions' RMBS markets.

**The banking landscape in Ireland and the UK continues to evolve. Along with consolidation among lenders, the growing market share of fintech platforms is supporting dramatic changes in financial services in both jurisdictions.**

"The withdrawal of KBC and Ulster Bank has certainly created opportunities for non-banks and challenger banks, who have generally seen an increase in business since the market withdrawals were announced. A number of agreements and MOUs in relation to various parts of the respective businesses have already been announced," confirms Conor Houlihan, head of finance, projects & restructuring at DLA Piper.

KBC Bank Ireland announced in April that it had entered into an MOU with Bank of Ireland that could see the latter acquiring substantially all of the former's performing loan assets and liabilities. KBC subsequently announced in August that it had divested its €1.1bn non-performing loan portfolio in a transaction financed by funds managed by CarVal Investors. Execution of both transactions will result in KBC Group's withdrawal from the Irish market.

Meanwhile, Ulster Bank is undergoing a phased withdrawal from Ireland. Most recently, in July, it sold 25 of its 88 branches, €7.6bn of performing loans and its asset finance business to Permanent TSB.

The exit of these two banks means that only three main banks remain in the Irish market – Allied Irish Bank, Bank of Ireland and Permanent TSB. "There is no doubt that the remaining Irish ▶

**Conor Houlihan,** DLA Piper

banks, who have been here for a long time, will continue to be significant. Those transactions involving the remaining Irish banks should be positive for such banks in terms of increasing their revenues and valuations," observes Houlihan.

The different dynamics during the pandemic and the financial crisis mean that the banking sector has been less affected by the Covid-19 fallout, with liquidity remaining in abundance and deposits increasing. Additionally, banks are yet to see a large volume of NPLs coming onto their books, due to widespread forbearance measures. Stage Two loans are ticking up slowly, but remain manageable.

Despite speculation around why KBC and Ulster Bank exited the market, key drivers for shareholders are return on equity, sustainability, group overhead costs and current business models.

At the same time, non-bank lenders in Ireland are benefitting from the shift in the market. Investor interest in the jurisdiction has brought broader and more diverse sources of capital; in turn, providing lower costs of funding.

The non-bank lenders tend to be focused on particular areas – such as mortgage lending or asset finance – with particular products, which lends itself to innovation and customer-centric offerings that are competitive and help them gain market share.

However, Houlihan suggests that Ireland is not dissimilar to the UK and other European jurisdictions, with banks examining their operating models.

Within the UK, for instance, Shawbrook Bank acquired The Mortgage Lender in January this year. Meanwhile, Starling Bank acquired buy-to-let specialist mortgage lender Fleet Mortgages in a £50m cash and share deal in July.

"The traditional banking sector always goes through waves and credit cycles. In this low-interest environment, it has been hard for banks to protect their net interest margins and to make profit," says Peter Voisey, partner at Dentons.

Similar to the Irish market, Voisey explains that the prime lending space in the UK has been so lean that some lenders have been loss-making for many years – which suggests that further consolidation may occur across the sector.

Alistair Bigley, sector lead on RMBS at S&P, questions whether other UK non-bank lenders are appealing to banks and what might happen if the non-bank space becomes more mainstream. "A number of the issuers have been acquired by banks and that begs the question of how they will innovate and evolve the type of lending they will do

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beyond 2021. It also raises the question of whether further consolidation is going to happen."

One reason for this is likely to be the hunt for yield in a low-rate environment. However, it also raises questions over whether banks – which have more diversified funding options – will continue to use securitisation as a funding tool.

Bigley claims: "This will be driven by the cost and tactical benefits of alternative funding sources. This remains difficult to predict, as to some degree it depends on market sentiment and policy initiatives."

There continues to be uncertainty over the impact of Covid-19 on unemployment rates and the ending of furlough schemes. Nevertheless, the pandemic has helped drive forward digitisation across the mortgage market and helped fintech firms to evolve within the traditional banking space.

Certainly, over the next five to 10 years, the Irish banking sector will look very different from now and become customer centric – with a lot more fintech partnerships. It is anticipated that banks will connect with fintechs to create opportunities to grow, facilitate efficient ways of working and help the economy to flourish. Digital banking, for example, allows the customer to be the focal point.

Houlihan notes: "There is quite a bit of change happening in the Irish banking space. In a small and concentrated market this has a big impact and creates lots of opportunities."

Meanwhile, in the UK – and, in particular, the non-bank lending space – it is expected that a significant number of new fintech platforms will begin lending to many different sectors but especially to SMEs and corporates. Voisey notes: "The platform lending space has been growing in the last 18 months and finding opportunities. We have seen different structured finance techniques used to finance the non-bank lenders, including in particular private securitisations, warehousings and forward flow arrangements."

Indeed, fintech platforms are likely to continue challenging banks and pushing further into the banking space. Voisey concludes: "In the UK non-bank sector, I expect to see shake-outs – winners and losers that will emerge, and others will follow. There has been such a push [by] fintechs, which are challenging the banks."