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Banks come full circle in return to wealth management

After a wave of private equity interest in the sector, banks are beginning to pile back into financial advice

By Xhulio Ismalaj

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High-street lenders are looking at whether they can branch out further into wealth management again after retreating from the space Photo: Getty Images

UK banks are coming full circle in a bid to become leading players in wealth management again.

High-street lenders were major players in the market, with scores of in-branch financial advisers servicing affluent clients.

However, they began a retreat from the space after 2013's landmark Retail Distribution Review, a piece of regulation that forced additional qualification requirements on wealth managers and hamstrung banks' ability to charge lucrative commissions on their own products.

The likes of Lloyds Banking Group, which held a significant stake in now-market-leader St. James's Place, sold its interest that year.

However, fresh pension legislation, rising asset prices and an ageing population have played into wealth managers' hands. Private equity has targeted a space dominated by smaller firms with dated technology.

As the sector has consolidated further, offering the potential for consistent and long-term fee income outside of market gyrations, banks are now eyeing up major deals again.

The real deal

NatWest acquired of Evelyn Partners for £2.7bn on 9 February. Barclays, Lloyds, and RBC also expressed interest in the firm, those close to the process told *Financial News*.

Clifford Chance partner Bruce Embley said that "a lot of banks have now improved their balance sheets, [and] are able to look at M&A more strategically than might have been in the past."

"[Banks] shrink back to [the] core, then, after 20 years, they forget that they are [at the] core, and move back to 'core plus'," said another private capital lawyer.

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Another lawyer who works on financial services deals said:
"My prediction is that actually

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banks are the buyers rather than private equity houses in the next six to 12 months.”

Banks are hunting opportunities to cross-sell other products and services into acquired wealth firms’ clients. They are also taking an increased interest in capital light work advising affluent clients on their finances as tax and pension policy seesaws.

Demographic headwinds are also playing to their advantage; younger savers are taking a greater interest in managing their finances, just as an ageing population looks to pass down an ever-growing pot of wealth.

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“Wealth is a sector that pretty much all the UK banks want to grow [in], and global banks [too],” says the financial services deal lawyer.

Tipping point

In October, analysts at RBC said that FTSE 250 wealth manager Quilter would be a “particularly attractive proposition” for Lloyds to acquire. The bank, which took full ownership of its financial planning joint venture with Schroders last year, was “underpenetrated” in UK wealth according to the analysts.

The head of a major wealth manager predicted that Barclays could be the next buyer on the block: “They have the budget and ambition to do so... they won’t like being beaten by NatWest [for Evelyn Partners] and will need to go big.”

A banker involved in the Evelyn Partners sale previously told *FN* that potential suitors were lining up contingency plans if they didn’t win the race for Evelyn, for example [mulling offers for Canaccord Genuity’s UK wealth arm](#).

Barclays CEO CS Venkatakrisnan told a 10 February media call: “We think that there’s going to be a real push behind wealth and we are putting a lot of resources behind it ourselves... We’ll be talking about it in the next [month]. And, in this case, if I can channel my inner Frank Sinatra, we will do it our way.”

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Interest rate hikes that came after inflation soared in the wake of the pandemic put pressure on the private equity funding that backed many wealth consolidators. However, they boosted banks’ bottom lines.

“With that extra cash flow that you have on the balance sheet of Barclays, NatWest, RBC or other banks, the question is: what do we do with this excess cash? A lot of investors are saying ‘don’t return that to us. Go and create value through some other way’,” said the private equity lawyer.

Tough competition

Private equity houses may now find it harder to compete with the valuations strategic investors are willing to pay. In the case of Evelyn Partners, buyout shops were held back in a process that saw banks fight it out amongst themselves, and NatWest pay a hefty 15x Ebitda in the end.

“What you probably will see is stratification in the market between the smaller to mid-market assets up to a billion and then prices in excess of that,” says Mayer Brown M&A partner Mark Evans.

“Anything in the [mid-market wealth management space], I suspect, is still going to see primarily private equity interest, because the scale’s probably too small to be interesting for a NatWest or a national or multinational financial institution.”

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Acquisitions don’t result in significant extra capital requirements for banks. Private equity firms, however, are coming under increasing pressure from regulators around how sustainable the funding they take on for deals is.

“[Private equity needs] to demonstrate a sustainable, conservative funding platform as part of the approval to get them authorised as a new owner of the business, and that will impose a natural constraint on the amount of debt you can use to acquire the business,” said Slaughter and May’s global sponsors co-head Harry Bacon. “You can’t use debt as the grease to move the wheels on it in the way that

you might be able to with more structured platforms on a normal operating business.”

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