Elphinstone Research Group

Private Equity in Financial Services

Sector Deep Dive

April 2026

What do we mean by the Financial Services Sector?

The financial ecosystem refers to the interconnected network of institutions, markets, and intermediaries that facilitate the flow of capital within an economy. Its primary function is to connect savers, borrowers, and investors, ensuring that financial resources are allocated efficiently to support consumption, investment, and economic growth. Rather than operating independently, the different components of the ecosystem are highly interdependent, forming an integrated system where the actions of one sector influence the others. In terms of scale, the financial services industry represents a significant proportion of economic output, particularly in advanced economies such as the United Kingdom, where it contributes substantially to GDP and employment. The interactions between its various sub-sectors create a dynamic system that supports growth, manages risk, and enables Innovation.

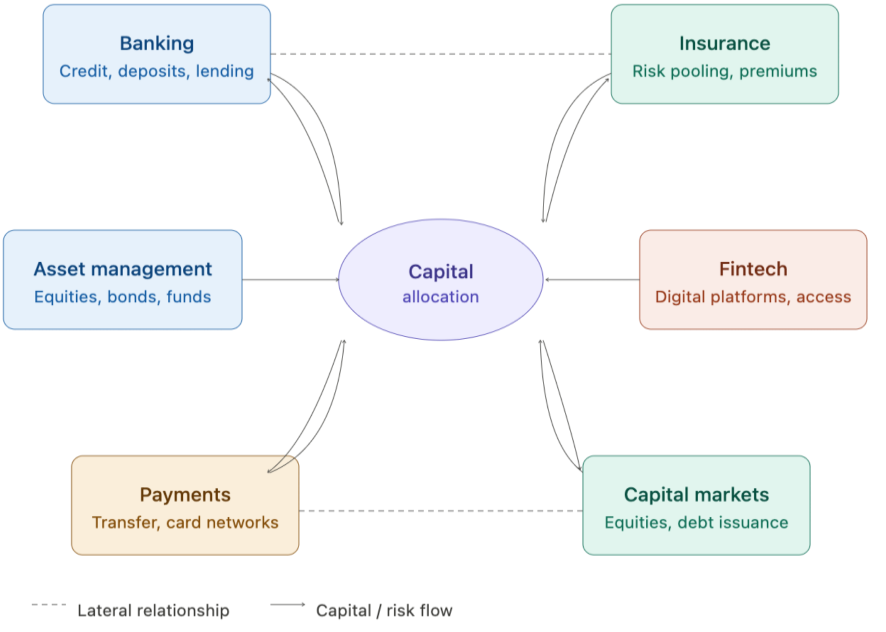


Figure 1: Visualising the overlapping nature of the Financial Services Industry

Banking

At the core of the ecosystem is the banking sector, which plays a fundamental role in financial intermediation. Retail banks provide services to individuals, including deposits, savings, and personal lending, while commercial banks support businesses through loans, credit facilities, and financial advisory. Banks generate revenue mainly through interest margins and service fees, and their ability to create credit makes them central to economic expansion. As a result, disruptions in the banking sector can have widespread implications across the entire financial system.

Insurance

The insurance sector complements this by managing risk and reducing uncertainty. Insurance companies provide financial protection against potential losses in exchange for premiums, using risk pooling and actuarial modelling to remain profitable. This function is essential in enabling both individuals and firms to undertake activities that involve uncertainty, thereby supporting long-term economic stability and investment.

Asset Management

Another key component is asset management, which involves the allocation of capital across financial markets on behalf of clients. Asset managers, including pension funds and mutual funds, invest in equities, bonds, and alternative assets to generate returns. They earn revenue through management and performance fees and play a crucial role in directing capital towards productive uses, influencing market efficiency and corporate financing.

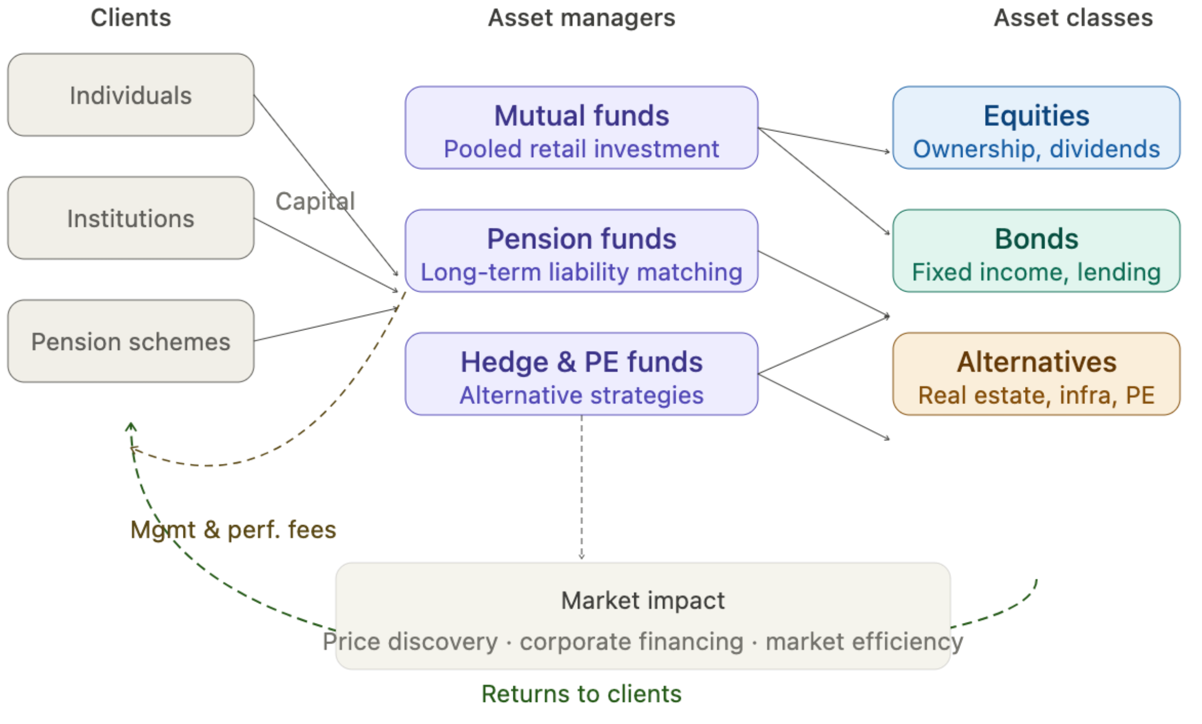


Figure 2: Allocation of Capital across the Asset Management Sector

Fintech

The emergence of financial technology (fintech) has significantly reshaped the ecosystem. Fintech firms leverage digital platforms to deliver financial services more efficiently, particularly in payments, lending, and digital banking. By lowering transaction costs and increasing accessibility, fintech has intensified competition and driven innovation across traditional financial institutions, many of which are now integrating digital solutions into their operations.

Payments

The payments sector underpins all financial activity by enabling the transfer of funds between individuals, businesses, and institutions. This includes card networks, digital wallets, and payment processors, which typically generate revenue through transaction fees. Efficient payment systems are essential for the functioning of both domestic and global markets, facilitating trade and economic exchange.

Where is value created in the Financial Services sectors?

An assessment of profit pools within financial services is central to understanding where economic value is created across the sector and, by extension, where private equity capital is most likely to be deployed. While financial services is treated as a homogeneous industry, it is more accurately understood as a collection of distinct verticals with materially different revenue models, regulatory burdens, capital intensity, return profiles, and competitive dynamics.

Several of the largest balance-sheet businesses in the sector generate relatively modest economic returns on invested capital, while a number of smaller fee-based or infrastructure-led segments produce disproportionately high profitability and superior risk-adjusted returns. In recent years, the composition of sector profit pools has migrated structurally away from spread-based intermediation and toward capital-light, recurring revenue, and technology-enabled business models. This migration is not cyclical but reflects lasting changes in customer behaviour, regulatory design, and competitive structure that are unlikely to reverse.

From a conceptual standpoint, profit pools refer not simply to accounting earnings, but to the concentration of excess economic returns within an industry value chain. This distinction is important because segments with strong revenues may still destroy shareholder value if returns on equity or returns on invested capital fail to exceed their cost of capital. For financial sponsors, the most attractive sub-sectors are therefore not necessarily the largest by revenue, but those exhibiting structural margin resilience, pricing power, scalable operating leverage, and defensible barriers to entry.

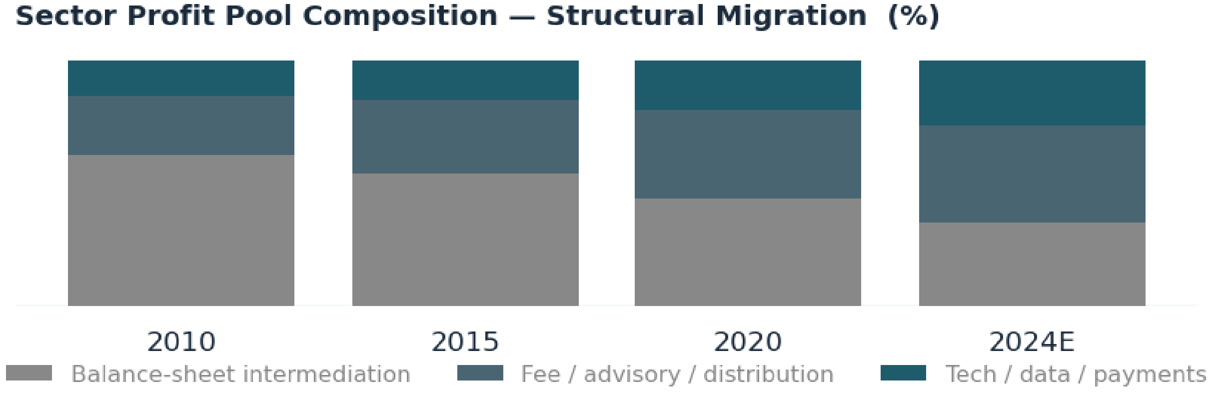


Figure *3:* Sector profit pool composition — structural migration away from balance-sheet intermediation (%)

Banking: Scale without commensurate returns

Banking remains the largest segment of financial services in asset terms, encompassing retail banking, commercial banking, investment banking, and specialist lending. Core revenues are generated through net interest income alongside non-interest income from transaction fees, advisory charges, card interchange, and treasury services. The sheer scale of aggregate banking revenues, however, obscures a more uncomfortable truth: that the risk-adjusted returns available to equity investors in most conventional banking businesses are structurally unimpressive relative to the regulatory capital those businesses must hold.

Banks are balance-sheet-intensive institutions subject to stringent prudential regulation, including minimum capital ratios under Basel III, liquidity coverage requirements, leverage constraints, and regular supervisory stress testing. These requirements compress return on equity by increasing the equity base against which profits are measured, irrespective of the underlying quality of the loan book or the efficiency of the operating model. Beyond capital constraints, banking earnings remain cyclical and highly sensitive to macroeconomic variables which introduce significant earnings volatility that listed bank investors have long struggled to price correctly. As a result, although banks generate substantial nominal profits in absolute terms, their risk-adjusted returns are often less attractive than those of adjacent sub-sectors with comparable or lower revenue bases.

Asset Management: High returns through operating leverage

Asset management has historically represented one of the most structurally attractive profit pools in financial services, primarily because of its capital-light operating model and the operating leverage embedded in fee structures linked to assets under management. Management fees create revenues that grow with market values and net inflows without requiring proportional increases in headcount, infrastructure, or regulatory capital. Fixed costs, including distribution platforms, compliance functions, technology systems, and investment teams, can be spread across a growing asset base, allowing operating margins to expand meaningfully as scale increases. At the largest global managers, this dynamic has produced some of the most durable margin profiles in all of financial services.

Traditional active management has, however, faced intensifying structural headwinds in the form of fee compression, driven primarily by the relentless growth of passive products and exchange-traded funds. As institutional and retail investors have increasingly recognised the difficulty of generating consistent alpha net of fees, the flow of capital toward lower-cost passive alternatives has been substantial and sustained. In response, economic rents in asset management have migrated toward alternative asset managers operating across private equity, private credit, infrastructure, and real assets where fee rates remain materially higher, product differentiation is stronger, and the barriers to entry for new participants are considerably more daunting. These businesses typically combine management fees on committed capital with performance-based carried interest, creating earnings profiles that are among the most attractive available to investors in financial services equities. For private equity sponsors specifically, GP-stake investments in established alternative managers offer access to recurring, highly visible fee streams with embedded upside from future fund growth and carry crystallisation.

Wealth Management: Sticky Revenues and Consolidation Economics

Wealth management has emerged as one of the most actively targeted profit pools for private equity over the past decade, driven by a combination of recurring revenues, high client retention, and favourable structural demographics. Revenue models include advisory fees based on assets under advisement, discretionary portfolio management charges, custody and platform fees, and product distribution economics from fund placement and structured solutions. Compared with institutional asset management, where client relationships are frequently transactional and governed by formal mandate reviews, wealth management client relationships are more personal, more enduring, and considerably less price-sensitive, particularly in the high net worth and ultra-high net worth segments where adviser relationships can span decades and multiple generations of the same family.

The sector also benefits from long-duration structural tailwinds that are entirely independent of market cycles: rising household wealth across developed economies, ageing populations requiring increasingly sophisticated retirement and estate planning, and the largest intergenerational transfer of assets in recorded history as the baby boomer generation begins to pass wealth to its successors. These trends compound over time, creating a structural growth backdrop for well-positioned wealth managers that is largely immune to short-term economic fluctuations. Crucially, wealth management in most jurisdictions remains deeply fragmented, with large numbers of subscale independent financial advisers and regional wealth firms whose operating cost structures are inefficient but whose client relationships are genuinely valuable. This fragmentation creates an exceptionally attractive buy-and-build opportunity set for private equity sponsors who can acquire a credible platform, drive operational efficiencies through technology standardisation and centralised compliance, and bolt on additional books of client business at accretive multiples.

Insurance: Float Economics and Distribution Value Pools

Insurance profitability is generated through two structurally distinct channels: underwriting income, derived from disciplined risk pricing and claims management as measured by the combined ratio; and investment income, generated from the float which is the pool of collected premiums held by the insurer between receipt and claims settlement. Both income streams can be valuable, but their risk profiles and capital requirements differ considerably. Underwriting profit, where the combined ratio falls below 100, represents genuine economic value creation from the insurance business itself. Investment income, by contrast, reflects the yield available on the float portfolio and is therefore sensitive to prevailing interest rates and the asset allocation decisions of the insurer's investment team.

While the underwriting entity itself can be capital intensive and operates within a heavily regulated prudential framework some of the most attractive profit pools in the broader insurance ecosystem lie in adjacent distribution and services businesses that bear no underwriting risk whatsoever. Insurance brokers, managing general agents, claims administrators, loss adjusters, and specialist software vendors all generate high-margin, fee-based revenues that are structurally decoupled from the volatility of the underwriting cycle. This decoupling is the fundamental insight that has driven the most significant wave of private equity activity in European insurance over the past decade: that distribution and services businesses are, on a risk-adjusted basis, considerably better businesses than carriers with lower capital requirements, more predictable cash flows, higher margins, and significantly simpler regulatory environments.

Payments and Fintech: Transactional Recurrence and Network Effects

Payments has become one of the fastest-growing and highest-multiple segments within financial services over the past fifteen years, as the secular shift from cash and cheque toward digital payments channels has generated both volume growth and new monetisation opportunities across the value chain. Revenue is generated through merchant acquiring fees, payment gateway charges, subscription software, interchange participation, cross-border foreign exchange spreads, and increasingly through fraud detection, analytics, and embedded finance services. The underlying economics of a scaled payment platform are exceptionally attractive, combining significant operating leverage (once the processing infrastructure and compliance architecture are established), incremental transaction volume carries very high contribution margins and recurring revenue characteristics and strong competitive moats built on network effects, proprietary data, and regulatory approvals that are costly and time-consuming for new entrants to replicate.

The secular tailwind from digitisation is not simply a developed market phenomenon. In many emerging and frontier markets, the displacement of cash by digital payments channels is at an earlier stage and will represent a more substantial volume growth opportunity over the coming decade. Payment processors, embedded finance platforms, and business-to-business payments software businesses have consequently become priority targets for both private equity and strategic buyers.

Market Infrastructure and Financial Data: Monopoly Economics

Revenue streams are diversified across transaction fees, listing fees, custody charges, annual subscription revenues, licensing of intellectual property, and the monetisation of proprietary market data. Because clients rely on these services regardless of market direction, revenues are often genuinely resilient through market cycles in a way that almost no other segment of financial services can claim.

Operating margins can be exceptionally high, in some cases approaching or exceeding 50 per cent of revenues, because the incremental cost of servicing additional volume or additional clients on an established platform is very low once the core infrastructure is in place. These characteristics, think durability, pricing power, low churn, and structural defensibility, result in premium public market valuations that frequently limit pure buyout opportunities. However, where transactions do occur these assets are among the most sought-after in all of financial services private equity, and sponsors who have successfully acquired and scaled market infrastructure assets have generated some of the highest absolute and risk-adjusted returns in the industry.

Segment	Revenue Model	Capital Intensity	Margin Profile	PE Rationale
Market Infrastructure	Transaction fees, subscriptions, licensing	Low–Medium	Very High (50–60%)	Monopoly-like economics; mission-critical switching costs; regulatory entrenchment
Payments & Fintech	Merchant fees, gateway, FX spread, SaaS	Low	High (40–50%)	Network effects; secular volume growth; operating leverage at scale
Insurance Distribution	Broking commissions, MGA fees	Very Low	High (35–45%)	No underwriting risk; recurring revenues; fragmented market for buy-and-build
Wealth Management	AUM fees, advisory, platform charges	Very Low	High (25–35%)	Client stickiness; demographic tailwinds; IFA/DFM consolidation opportunity
Asset Mgmt (Alts)	Mgmt fees + carried interest	Very Low	High (45–55%)	Carry upside; GP-stake stakes; differentiated fee rates vs. passive pressure
Specialist Lending	NII, arrangement fees	Medium	Moderate (20–30%)	Operational restructuring; digital distribution; niche underwriting expertise
Asset Mgmt (Trad.)	Basis-point AUM fees	Low	Moderate (25–35%)	Fee compression headwind; value creation requires differentiation or scale
Retail / Comm. Banking	NII, transaction and card fees	Very High	Lower (15–20%)	Less attractive; PE focuses on carve-outs or specialist sub-segments

Private equity's interest in financial services is driven by shifts in macroeconomic conditions and evolving industry dynamics. Today, interest rate volatility, regulatory change and rapid technological growth are interacting to reshape cost structures and valuations, presenting both opportunities and risks for investors.

Base rate effects

The interest rate environment is arguably the most important macroeconomic variable impacting private equity's activity in financial services. The base rate of 4.75% at the beginning of 2025 contributed to slower fundraising and delayed exits. Whilst rates remain elevated, as the BoE cut base rate throughout the year to 3.75% in December has introduced greater market predictability. For financial services targets, this is crucial as valuations, at the core, are rate sensitive with dual dynamics. Higher-for-longer rates lead to falling valuations as price-to-book multiples fall for banks and insurers due to impacts to balance sheets such as future profits being worth less today, loan default risk increasing and investors demanding higher returns (increasing discount rates). However, this also presents a simultaneous opportunity for widening net interest margins as loan rates rises with deposit costs rising at a slower pace.

The downstream effect on deal structure has been equally as important. A combination of rate cuts, stable inflation and strong equity markets (better exit confidence) has improved certainty on pricing leading to a gradual decrease in financing costs. As interest rates decrease, borrowing is cheaper with debt also becoming cheaper, which is a key part of PE deals through leverage, making them more attractive as they become easier to finance. However, as conditions improve, private capital has faced increased competition from traditional bank lenders returning to the market. When markets were volatile in 2022-23, private credit funds stepped in due to less competition as banks reduced lending, but with conditions improving, more lenders are competing to finance deals. This gives PE firms more options but lower negotiating power. In response, PE sponsors are now targeting financial services businesses that face a tougher lending environment but availability for creative capital structures, including hybrid debt solutions and asset-backed facilities.

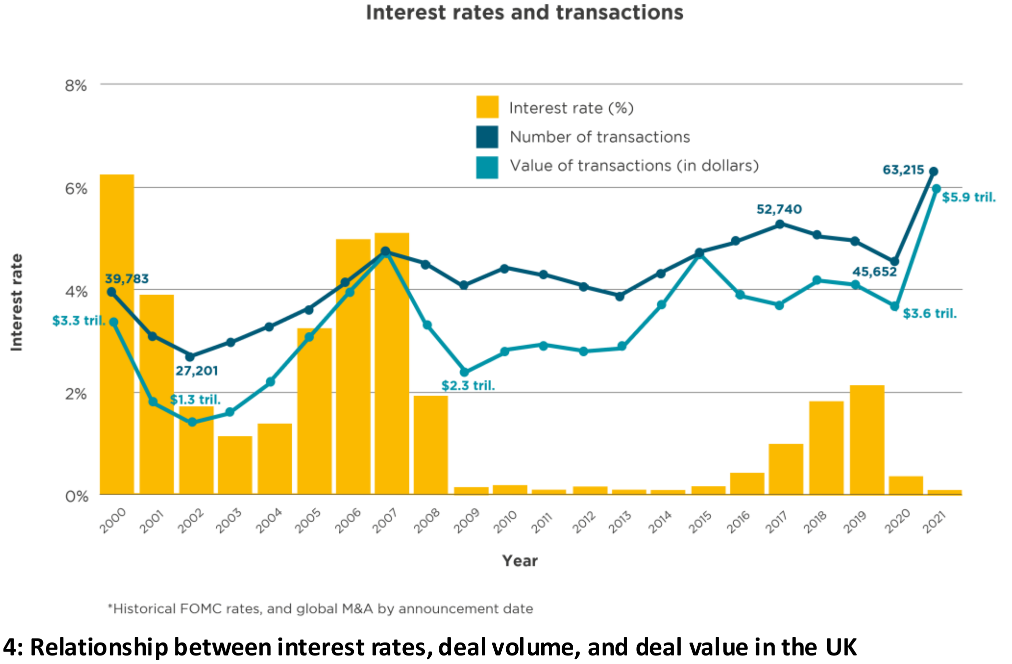


Figure 4: Relationship between interest rates, deal volume, and deal value in the UK

However, from the figure below, this illustrates that macro conditions aren't the sole driver to change in this sector as when the conditions worsen, private equity adapts through alternative ways regaining capital such as dividend recapitalisation. We see in periods of tough conditions such as the COVID-Era boom, the volume of dividend recapitalisations had several peaks, with the greatest in March 2021 of 17 deals. Therefore, beyond just macro conditions, we see that financial flexibility in capital structures is a driver of private equity impact in financial services. With macroeconomic conditions easing, UK private equity is expected to recover through the need to generate exits and an awaiting demand for dealmaking after a period of inactivity as shown by the figure below (2022-23). Focusing on financial services, many sponsor-held assets are approaching/exceeding standard five-year hold periods. The easing of interest rates provides a window of opportunity for increased deal volumes in the near term.

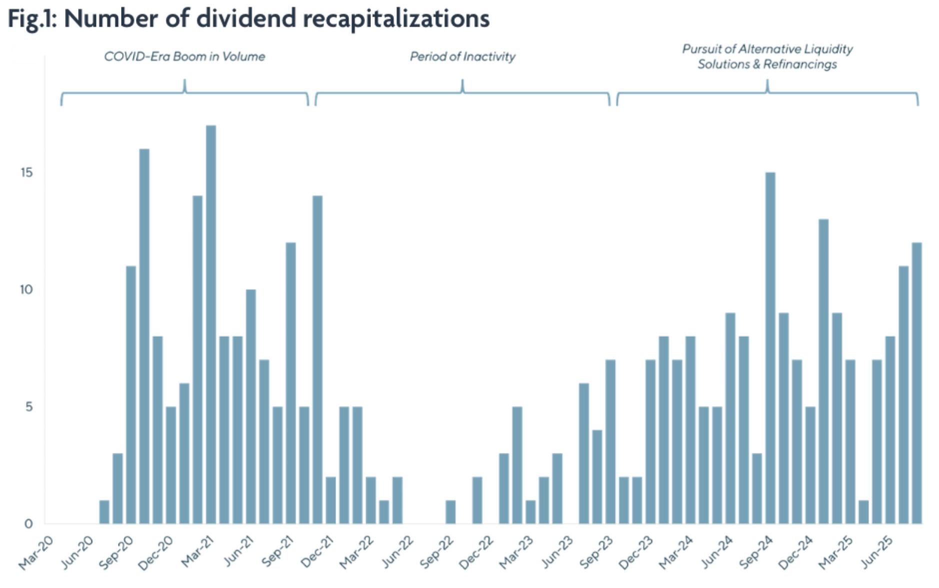


Figure 5: Number of Dividend Recapitalisations across the past 5 years.

Regulation

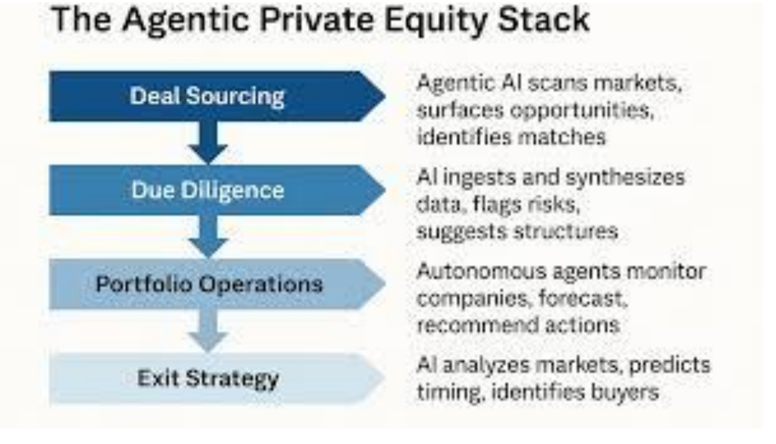
Financial services are among the most heavily regulated sectors globally, and this environment has become increasingly important in PE underwriting. The IMF has called for 'more proactive supervision' of private capital, and regulators such as the SEC are aiming to improve reporting standards. Within the UK, the BoE have implemented a system-wide exercise to assess private market risks involving leading banks and private credit managers, essentially stress testing how private credit and private markets interact with banks, exposing hidden risks and leverage. Consequently, there's increased scrutiny on leverage structures as banks and lenders are more cautious about highly leveraged deals, resulting in some deals lowering leverage, directly impacting PE returns as the internal rate of return (IRR) is sensitive to leverage. Although not directly targeted towards PE, enhanced data collection, requirements and increased transparency, there's an expectation of more reporting and disclosure leading to higher compliance costs.

Furthermore, non-compliance penalties have risen sharply, where global financial regulators have imposed fines totalling $1.23bn on banking and financial institutions for non-compliance in Q1 and Q2 of 2025. This is a 417% increase on the same period in 2024. With evolving regulation in financial services, investors now consider strong compliance systems when underwriting financial services acquisitions, as non-compliance has become a rising cost over recent years, highlighting the impact of regulation on PE.

Artificial Intelligence

The evolution and application of AI have reshaped the structure of the financial services industry. Within sectors such as wealth management, AI agents can virtually advise clients on tailored investment and tax strategies. With enhancing client outcomes, this further reduces cost bases (salaries, compliance checks, data gathering) making firms more scalable and attractive to PE investors that implement this. For PE sponsors, AI has become a value creation lever, where companies have increased value with the application of AI within in their system, as this has become the perceived future to operational efficiency with 'over 70% of banking firms reporting to use Agentic AI'.

In 2025, global financial services deals reflect a market with limited but large strategic acquisitions, where larger fintech firms have been acquiring smaller firms with differentiated AI capabilities. With fragmentation across subsectors such as wealth tech and Insurtech, PE sponsors have an opportunity to buy, merge and scale these firms. Currently, these firms face increasing regulatory and technology costs, impairing competitive abilities. PE sponsors can consolidate these fragmented sectors and create value through cost synergy (shared compliance and infrastructure) and provision of better services through AI adoption. Value creation and scalability results in a profitable opportunity for investors in a rapidly developing market.



Regulation and technology have become intertwined with AI adoption. The EU AI act will become fully implemented in August 2026 resulting in strict requirements and obligations of transparency and human monitoring of AI usage within financial services. Within the US, there's enforcements of explanations in AI-driven lending and how these models influence credit. With a PE lens, sponsors must also consider if a company is prepared to meet AI regulation not just domestically, but across many jurisdictions for operational efficiency. From BDO's 2026 predictions for Fintech, financial services are the most targeted industry for AI-powered cyberattacks in 2025, with being 33% of all AI-driven incidents. Therefore, with AI adoption raising cyber risk, cybersecurity has developed into a driver of value, where companies with strong security infrastructure achieve higher valuations and fewer regulatory costs displaying how AI and regulation shape PE investments.

Macroeconomic conditions, regulation and technology work interdependently. With interest rates and economic conditions influencing valuation and deal activity directly, the adoption of AI has realised strong technological infrastructure and adaptability to regulation have become central within valuation. There is now a shift in focus of PE sponsors to companies that obtain assets that can adapt to evolving regulation and implementation of AI but also structures that can raise capital in tough macro conditions.

Private Equity Target Segments in Financial Services

Financial services is one of the most consistently attractive sectors for private equity deployment, accounting for approximately 14% of global PE deal value which places it third across all sectors, behind only technology and healthcare. Yet this aggregate figure understates the sector's strategic importance: for many mid-market PE funds, financial services businesses represent the single largest concentration in their portfolios, owing to the sector's combination of recurring fee-based revenues, regulatory moats, and structural fragmentation across dozens of sub-verticals. This section examines where, specifically, PE capital flows within the financial services universe, breaking down the sector by sub-segment, deal type, entry characteristics, and the structural attributes that make particular business models compelling targets.

Sub-Sector Allocation: Where Within Financial Services Does PE Invest?

Financial services is far from monolithic. PE sponsors distinguish sharply between capital-intensive businesses (such as bank balance sheets or insurance carriers bearing underwriting risk) and capital-light businesses (such as fee-earning intermediaries, technology platforms, and distribution networks). The overwhelming preference is for the latter: PE capital gravitates toward businesses where revenue is generated through fees, commissions, or subscriptions rather than through the deployment of capital at risk.

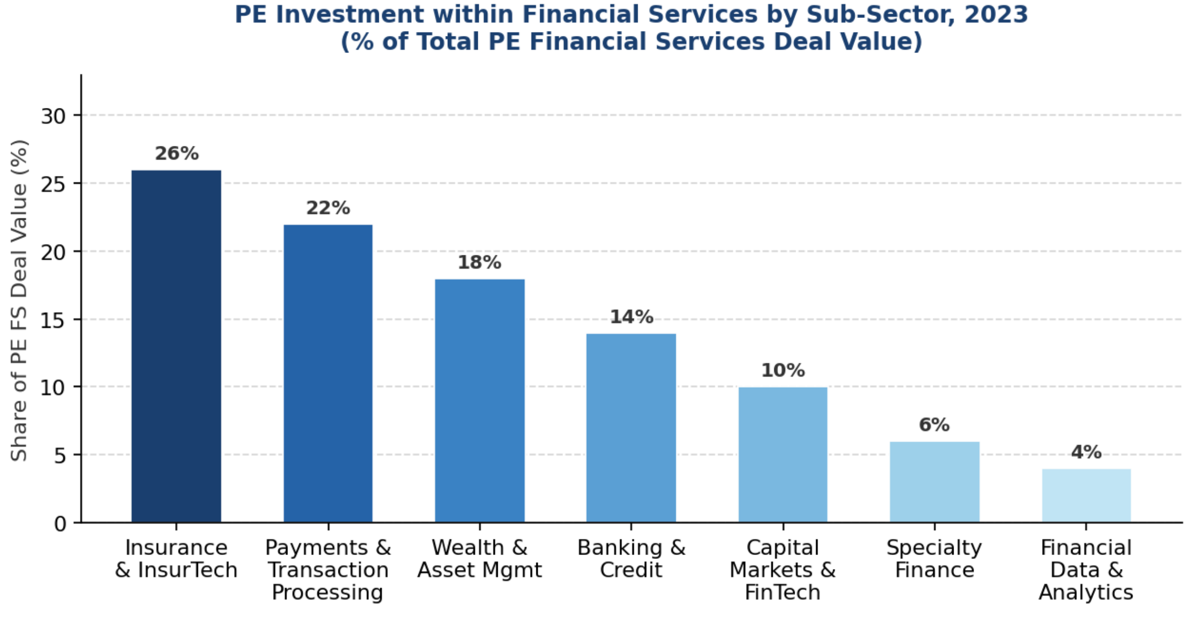


Figure 5: PE Investment within Financial Services by Sub-Sector (% of Total FS Deal Value, 2023).

As Figure 5 illustrates, insurance and InsurTech platforms represent the largest share of PE investment within financial services at approximately 26%, followed closely by payments and transaction processing at 22%. Together these two sub-sectors account for nearly half of all PE capital deployed in the sector. This is a reflection of their recurring, volume-driven revenue profiles and the structural fragmentation that supports aggressive buy-and-build strategies. Wealth and asset management is the third largest sub-sector, driven primarily by the wave of registered investment adviser (RIA) aggregation and the consolidation of independent financial advisory practices. With an estimated 13,000+ RIA firms operating in the US alone, the vast majority owner-managed, the succession dynamic creates a natural, self-replenishing supply of acquisition targets for PE-backed roll-up platforms.

Sub-Sector	Deal Share	Key Targets	PE Investment Rationale
Insurance & InsurTech	26%	MGA platforms, specialty lines, distribution	Fee-based revenues, capital-light models, consolidation of fragmented broker networks; InsurTech platforms offer tech-enabled underwriting efficiency
Payments & Transaction Processing	**22%**	**Merchant acquiring, B2B payments, cross-border FX**	**Transaction volume growth decoupled from credit risk; sticky customer relationships; network effects and high switching costs**
Wealth & Asset Management	18%	RIA aggregation, fund administration, investment platforms	AUM-linked recurring fees, ageing advisor demographics creating succession opportunities; fragmented landscape ideal for roll-up strategies
Banking & Credit	**14%**	**Specialty lenders, SME credit, digital banks**	**Niche credit books with superior underwriting; regulatory capital relief via non-bank structures; deposit-free balance sheets**
Capital Markets & FinTech	10%	Trading infrastructure, RegTech, data platforms	Subscription revenue, mission-critical workflow software; barriers to switching in compliance and reporting tools
Specialty Finance & Other	**10%**	**Leasing, factoring, structured credit vehicles**	**Asset-backed lending with predictable yield; often uncorrelated to public equity cycles**

Segments that Private Equity Typically Avoids

Equally instructive is an understanding of the financial services sub-sectors that PE generally avoids or approaches with significant caution. Balance sheet-intensive businesses such as traditional commercial banks, insurance carriers bearing underwriting risk, and proprietary trading firms present challenges that sit outside the conventional PE value-creation playbook. Leverage is inherently embedded in these business models, leaving little room for the additional financial engineering that LBOs require. Furthermore, regulatory capital requirements constrain the ability to extract cash flows through dividends or distributions at the pace PE return profiles demand.

Market-sensitive revenue streams like prime broking, investment banking, and asset management businesses with high performance-fee dependency are also similarly difficult to underwrite, as the revenue volatility makes it hard to construct a credible base case for debt repayment. PE sponsors are not structurally opposed to these businesses, but the deal structures required (lower leverage, longer hold periods, more complex governance) mean they rarely reach the return threshold of a traditional buyout fund.

Private equity participation in the financial service industry is largely influenced by a rigorous set of regulations, high capital requirements, and operational continuity requirements. Due to these complexities, PE firms use a mix of control and non-control structures depending on asset maturity, conviction in future value, and seller objectives.

a) Buyouts

The most common of the entry structures is the majority buyout, as shown by global buyout deal values reaching an average deal size of $1.175bn in 2025, a 44% increase from 2024 (Bain, 2026). In a majority buyout, the PE firm will purchase approximately 100% of the target firm, often financed with debt. By raising debt to finance their acquisition they can enhance equity returns through financial leverage. Buyouts are most common in businesses with stable cash flows, identifiable margin expansion opportunities, and limited balance sheet volatility. A key distinction for financial service LBOs is that strong regulatory frameworks constrain the leverage a PE firm can layer onto the balance sheet, fundamentally altering the standard LBO model.

Complete buyouts give the sponsor full control over governance, capital allocation, operating style, and exit timing. These controls are particularly important when the value creation is coming from significant changes to the current operating style. In financial services, regulatory leverage constraints and capital requirements mean sponsors rely less on balance-sheet leverage and more on operational value creation. Therefore, buyouts in the financial services industry are often underwritten with close attention to earnings quality and regulatory capital needs.

b) Minority Stakes

Another common entry structure is the purchase of a minority stake in the target company. Following this purchase, the PE firm often gains board representation, protective provisions, and negotiated information rights. This entry method is especially relevant in the financial services industry as many businesses are founder-led, client-driven, or highly regulated, making large scale ownership changes less attractive or feasible. Minority stake investments are frequently used in growth equity positions, where capital is intended to accelerate organic expansion, support product development, or finance bolt-on acquisitions without displacing existing ownership and management.

Minority stake investments may be preferred when the PE firm's value-creation thesis is aligned with the thesis of existing management. Often these transactions allow PE firms to gain exposure to secular growth while limiting governance friction and retaining existing leadership. The firm's economic rights may still be substantial, particularly when the PE firm has preferred returns, liquidation preferences, anti-dilution protections, or structured downside protections. A minority stake purchase combines capital provision with strategic partnership rather than outright ownership. Examples of financial service firms include wealth managers, speciality lenders, fintechs, and boutique asset managers. Misalignment on exit strategy or timing can still create governance friction, even with protective provisions. To mitigate this friction, sponsors can negotiate drag-along or deadlock mechanisms at entry.

c) Carveouts

Carve-outs are another significant entry structure, particularly in the services industry where large parent firms may wish to divest non-core operations or simplify portfolios. In a carve-out, the PE firm acquires a business unit, subsidiary, or product line from a larger parent company. Following the transaction the PE firm takes responsibility for separating the integrated systems and procedures. These transactions can be particularly attractive when there is a view that the underlying asset is being undervalued within the parent's broader structure, creating an opportunity for the PE firm to generate considerable value. Value creation often comes from giving standalone governance, targeted investment, focused management objectives, and an independent ecosystem.

Carveouts can often be more complex than a standard buyout as the target firm may have previously relied heavily on shared infrastructure. In the financial services industry this is particularly pronounced as there is a need to preserve regulated activities and client relationships. Due to these complexities, sellers frequently apply a discount to the asset's standalone value, which can represent a meaningful entry price advantage for PE buyers. Furthermore, firms may agree to provide a transitional service agreement (TSA), under which the seller will continue to provide services such as IT, HR, back-office support and compliance for an agreed length of time, usually 6-24 months after closing. In many financial services carve-outs re-application for regulatory authorisations can add delays to value realisation.

d) Take-private Transactions

Take-private transactions involve acquiring a publicly traded company and removing it from the public markets through a negotiated or contested acquisition. These transactions often occur when the PE firm believes the market is undervaluing the business, when public reporting pressure is suppressing long-term investment or management requires a longer runway to implement a transformation plan. The process of a take-private is often more regulated, more in the public eye, and requires more board and shareholder approval than the previously mentioned structures. To secure shareholder approval, PE firms typically pay a premium of 20~40% above the prevailing share price. Recent examples of take-private transactions include the $55bn acquisition of Electronic Arts (EA) by a sovereign wealth and private equity-backed consortium (the largest leveraged buyout on record. PWC, in their 2026 outlook, note that while deal volumes have fallen, deal sizes have risen, partly driven by large take-private transactions.

e) Other Deal Structures

Beyond the four core entry structures, several less common but increasingly relevant structures deserve mention. Growth capital transactions are similar to a minority purchase; however, they are often more focused towards scaling operations rather than control. Recapitalisations allow owners to preserve part of their stake while bringing in new capital, and in some cases refinancing their balance sheet and debt. Joint ventures and platform plus add-on are also increasing in relevance, particularly in fragmented subsectors, where consolidation can improve operating efficiency and scale.

What does Private Equity do after investing?

Acquisition marks the beginning, not the end, of a PE firm's work. Sponsors typically hold financial services businesses for four to seven years, during which they execute structured value creation programmes across governance, operations, and finance. The investment thesis is written before the deal closes and every decision made during the hold period is ultimately in service of that thesis. What distinguishes the best sponsors from the rest is not the sophistication of the thesis itself, but the discipline with which it is executed over a multi-year period, under the unique constraints that financial services regulation imposes.

Financial services presents a distinctive challenge for PE. Regulatory bodies scrutinise ownership changes closely and expect proactive disclosure of transformation plans. Customer trust is fragile and slow to rebuild once damaged. The systemic importance of many financial institutions means that execution failure carries reputational and regulatory consequences well beyond the commercial. Sponsors who attempt to apply the same transformation playbook they use in industrials or consumer goods quickly discover that the regulator has both the authority and the inclination to slow or block changes that it considers destabilising. The most successful sponsors treat this not as a barrier to returns, but as a structural moat: those who navigate the regulatory environment well can execute faster and with more confidence than listed peers constrained by quarterly earnings cycles and diffuse shareholder bases who have no direct stake in long-term value creation. We will look at three levers of value creation.

4–7 yrs	**10–25%**	**18 mo**	**£77.8bn**
Typical hold period	Cost reduction target	Avg. leadership change	Illustrative order backlog

1. Managerial Changes

The first and most consequential intervention a PE sponsor makes in a financial services business is not operational, but it is managerial. Leadership change sets the tone, pace, and credibility of everything that follows, and the most experienced sponsors plan it before the acquisition completes rather than after. Replacing the CEO and CFO within the first eighteen months is standard practice, but the best sponsors have their preferred candidates identified at the deal stage, with onboarding plans ready to execute from day one of ownership. The calibre and background of incoming leadership matters enormously in financial services in a way that it simply does not in other sectors. Customers, counterparties, and large institutional clients take comfort from familiar, experienced names at the helm of the businesses they depend on. This is particularly acute in wholesale banking, insurance broking, and asset management, where long-standing personal relationships between senior management and key clients can represent a material proportion of revenue.

Boards are restructured simultaneously, whether they are reduced in size, made more operationally focused, and equipped with the information architecture needed to govern an accelerating transformation. Monthly board reviews, driven by detailed KPI packs that track value creation metrics in real time, replace the quarterly reporting cadences of the pre-acquisition period. Management equity incentive plans (MIPs) are designed to align executive interests precisely with the sponsor's return objectives, typically granting 10 to 15 per cent of value created above an agreed hurdle rate. These plans are cultural tools, signalling to the management team that the sponsor expects them to think and act as co-owners of the business, not as stewards of an inherited structure.

2. Operational Value Creation

The defining feature of a sophisticated PE value creation programme is simultaneity. Cost reduction, technology investment, revenue growth, and financial engineering run concurrently, each reinforcing and occasionally competing with the others. The skill of the sponsor lies in sequencing these initiatives intelligently and prioritising those with the shortest payback periods in the early phases, while laying the groundwork for longer-horizon investments that will enhance the exit valuation. Managing the tension between operational programmes that require management attention and M&A processes that require a different kind of bandwidth is one of the most demanding aspects of financial services PE.

Cost Efficiency

PE sponsors target cost-to-income ratios with a discipline that listed management teams, constrained by quarterly earnings pressure and diffuse shareholder bases, rarely sustain. Common levers differ sharply by sub-sector: branch and back-office rationalisation in banking, distribution cost reduction in insurance, and platform consolidation in asset management. The most effective programmes are those where structural simplification improves, rather than degrades, the customer experience — a distinction that matters enormously in regulated entities where the regulator is always watching.

10–25% *cost reduction range, sub-sector dependent*

Technology Modernisation

Legacy technology is endemic in established financial services firms: core banking platforms built on mainframe infrastructure, insurance policy administration systems running on code that predates the internet, and asset management reporting built on spreadsheets. PE-backed modernisation programmes differ from those at listed peers in one critical respect: the sponsor requires a clear return on every pound of technology spend within the hold period. This drives a preference for modular, phased modernisation over wholesale replacement. Digital distribution investment runs alongside core systems work, targeting the unit economics of customer acquisition.

Modular *phased over wholesale — clear ROI required*

Revenue Growth

Cost reduction alone does not generate the returns PE targets. Revenue growth programmes such as cross-selling to existing customers, digital channel investment, product range expansion, and geographic growth run in parallel with every efficiency initiative. In asset management, the most common form is a deliberate migration toward higher-margin alternative strategies, as traditional active equity mandates face structural fee compression from passive competitors. In insurance, the priority is building captive distribution through IFA network acquisitions, so the carrier or MGA controls the end customer relationship and the renewal economics that flow from it. The best revenue programmes are those where the sponsor has identified an underserved customer need in diligence and has a credible plan to monetise it.

Parallel *to cost reduction — not sequential*

Buy-and-Build M&A

Consolidation has been the defining PE theme of the past decade in insurance broking, IFA aggregation, and fintech infrastructure. The logic is compelling: acquire a platform at a market multiple, bolt on smaller businesses at accretive multiples, achieve cost and revenue synergies at scale, and exit the combined entity at a premium to standalone valuation. The businesses commanding the highest exit multiples are those that have assembled genuinely differentiated distribution or technology infrastructure rather than just aggregated revenue, but built something a strategic acquirer cannot easily replicate organically. Sponsors that pursue this strategy must have both M&A origination capability and proven integration methodology, as execution failure on a bolt-on can set back the entire platform.

Multiple *arbitrage — platform premium at exit*

3. Financial Engineering

In most sectors, PE sponsors maximise returns through aggressive leverage at the HoldCo level. This involves loading the acquisition structure with debt to amplify equity returns and forcing management discipline through debt service obligations. Financial services is categorically different. Regulatory capital requirements at the entity level constrain the amount of debt an acquisition structure can carry without triggering regulatory scrutiny or breaching prudential requirements that could result in supervisory intervention. Sponsors who attempt to replicate a standard leveraged buyout structure in a regulated financial services entity quickly discover that the regulator has both the authority and the willingness to intervene if it believes that financial stability is being compromised in pursuit of sponsor returns.

The response among the most sophisticated PE firms is a more nuanced set of financial engineering tools, each calibrated to the regulatory environment of the specific sub-sector. In banking, the focus shifts entirely away from HoldCo leverage and toward improving return on risk-weighted assets — the true measure of capital efficiency in a Basel-constrained business. This means actively managing the composition of the loan book, reducing exposure to high-RWA assets, and improving net interest margins through pricing discipline and product mix optimisation. In insurance, sponsors work with actuaries and reinsurance counterparties to optimise reserving policies and release excess capital through structured reinsurance programmes (transactions that are invisible in a standard PE investment but can release hundreds of millions of pounds of capital that is then available for distribution or reinvestment). Both approaches deliver real financial value to the sponsor, but through mechanisms that require deep sector expertise and are entirely opaque to a generalist PE practitioner.

Capital structure optimisation is a continuous programme throughout the hold period, responding to regulatory change, business performance, and M&A activity. The sponsors who create the most value in financial services are those who treat capital not as a fixed constraint to be worked around, but as a dynamic resource to be actively managed. Buy-and-build through M&A reinforces this as each bolt-on acquisition brings capital requirements that must be integrated into the consolidated structure, and the most efficient sponsors are those who have pre-modelled the consolidated capital position before any individual bolt-on is signed.

Sub-sector dynamics

Financial services is not a homogeneous sector, and the value creation levers that generate returns in one sub-sector are frequently irrelevant or counterproductive in another. The cost reduction playbook that works in a legacy retail bank would be destructive if applied to an IFA network, where the value of the business is almost entirely embedded in the personal relationships between individual advisers and their clients. Similarly, the technology modernisation approach that works in asset management, for instance replacing a fragmented reporting architecture with a unified platform, is a very different exercise from the core banking system replacement that a challenger bank might require. The most successful PE sponsors are those who have built genuine, accumulated expertise in one or two sub-sectors, rather than applying a generic financial services playbook across the entire landscape.

Sub-Sector	Primary PE Activity	Key Value Creation Levers
Banking	Specialist lenders, sub-scale commercial banks	RWA reduction · NIM expansion · digital distribution build-out · back-office rationalisation. Regulatory capital constraints mean leverage is applied at OpCo level via improved asset quality rather than HoldCo debt.
Insurance	MGA platforms, broking roll-ups, IFA networks	Distribution consolidation dominates. In carriers: reserving discipline, combined ratio improvement, reinsurance capital release. Distribution businesses offer cleaner, more predictable cash flows and attract premium exit multiples.
Asset & Wealth	IFA/DFM consolidation, alternatives managers	Fee compression in active strategies drives PE toward alternatives and solutions. IFA and DFM consolidation builds scaled adviser platforms with recurring revenue. Talent retention through the transformation is the principal execution risk.
Fintech	Growth equity, later-stage buyout	Unit economics improvement, enterprise penetration, geographic expansion into adjacent markets. Lighter regulatory burden allows faster transformation cadence than banking or insurance. Customer trust is the central asset to protect.

Market Overview

This section offers a case study of two recent transactions completed by private equity giant, Blackstone. The two transactions profiled in this note are representative of Blackstone's strategy in early 2026: deploying capital in areas where structural market dislocations have created compelling entry points, and doing so with a differentiated approach that goes beyond purely financial engineering. Across both deals, a common thread emerges: Blackstone is acquiring positions in markets where information asymmetry, operational complexity, or persistent mispricing relative to private market values provides a durable edge.

Deal 1: Atlas Holdings – GP Stake Acquisition

Atlas Holdings is a Greenwich, Connecticut-based private equity firm specialising in complex industrial and manufacturing carve-outs. Founded in 2002, the firm has built a track record acquiring non-core businesses from large corporates and engineering operational turnarounds across sectors including aerospace and defence supply chains, industrial services, and specialty chemicals. With over $16 billion in AUM, Atlas occupies the upper tier of mid-market managers.

1. Transaction Structure

The transaction was structured as a purchase of a portion of Atlas's general partner economics: specifically, a share of the management fees and carried interest generated across Atlas's current and future funds. For Atlas, the transaction provides a partial liquidity event for senior partners without triggering a succession event or change of strategy, which is precisely the kind of outcome mid-market managers seek when they want firm-level capital for new strategies or distribution infrastructure without pursuing an IPO.

2. Strategic Rationale

BXGP's involvement reflects the unit's rapid expansion: from inception to $12.9 billion in AUM by Q1 2026. The Atlas deal adds a high-quality industrial specialist to a portfolio that spans buyout, growth equity, and credit managers globally. Blue Owl's co-investment reflects a broader trend of large alternative managers pooling capital and diligence costs on GP stakes targets that might otherwise be too small or concentrated for either party to pursue independently. Crucially, the partnership also serves as a tacit institutional endorsement of Atlas. More broadly, the deal is emblematic of an ongoing structural shift: the transformation of GP economics from illiquid, founder-held assets into actively managed balance-sheet instruments. As the GP stakes market matures, the carry stream is increasingly treated as an investable asset class in its own right.

Date	March 10, 2026
Parties	BXGP and Blue Owl Capital (buyers); Atlas Holdings (seller)
Structure	Minority economic interest in Atlas's general partner economics
Economics acquired	Share of management fees and carried interest — current and future funds
Control	No board seats, no veto rights, no investment decision authority
Consideration	Undisclosed (typical for GP stakes; tied to forward fund performance)

Deal 2 – Alexander & Baldwin – Take-Private

Alexander & Baldwin has one of the more distinctive histories in US commercial real estate. Originally founded in 1870 as a sugar plantation and shipping company, it gradually shed its agricultural and transportation operations before reinventing itself as a REIT focused on Hawaii-based commercial real estate, completing its REIT conversion in 2012. By the time of the take-private, A&B's portfolio was concentrated in grocery-anchored retail centres and select industrial assets across the Hawaiian islands.

1. Transaction Structure

The transaction was structured as a straightforward all-cash merger. Shareholders received cash and the company ceased to exist as a listed entity. The joint venture structure is notable: Blackstone provides financial firepower and real estate platform expertise; MW Group brings deep local knowledge of the Hawaiian market and existing operator relationships; DivcoWest contributes West Coast logistics and commercial expertise. The three-way structure gives the consortium the operational credibility needed to reposition assets actively rather than hold them as a passive financial investment.

2. Strategic Rationale

The A&B transaction sits squarely within one of the defining themes of early 2026: the take-private of listed real estate companies whose public valuations had fallen well below private market asset values. Rising interest rates in 2023–2024 compressed REIT multiples broadly, and while rates had begun to ease by late 2025, the re-rating of REIT equities lagged the recovery in underlying property values . This left a window for well-capitalised buyers with genuine conviction.

Hawaii's commercial real estate market is structurally distinctive. Geographic isolation limits new supply, and the state's dependence on tourism and military spending creates relatively stable demand for grocery-anchored retail. These characteristics make A&B's portfolio more defensible than a comparable mainland portfolio and support the case for a longer-term hold under private ownership .For Blackstone Real Estate, the deal adds to a growing portfolio of US commercial real estate acquired through take-private transactions over the preceding 18 months, and reflects the firm's public conviction that listed real estate remains mispriced relative to private market equivalents.

Date announced	December 8, 2025
Date closed	March 12, 2026
Consideration	$21.20 per share, all-cash (plus $0.35 Q4 2025 dividend paid separately)
Total deal value	$2.3 billion
Consortium	Blackstone Real Estate, MW Group, DivcoWest
Structure	All-cash merger; no management rollover, no earnout, no public equity component
Board process	Special committee of independent directors; shareholder vote March 9, 2026

Where do the opportunities lie in the Financial Services sector?

Private equity is sitting on more undeployed capital than at any point in its history. As of mid 2025 buyout dry powder reached $1.2 trillion, with a growing share of it having passed the point at which general partners face serious pressure to act. When a fund's investment period expires, the GP either deploys the capital, returns it to investors and damages its reputation, or negotiates an extension that damages LP relationships either way. Nearly a quarter of current buyout dry powder has now been held for over four years, indicating a strong need for spending now. This current climate both makes deployment and spending harder while also making it more urgent. Buyout EBITDA multiples reached their highest ever recorded level in 2025, meaning GPs are paying more for assets and also relying less on cheap debt to generate returns. Capital has been forced to become more concentrated in sectors where operational improvement is possible, where markets are divided enough to reward firm consolidation, and where long-run demand is strong enough to justify paying a premium on entry. Two sectors are currently defining these opportunities.

1. Fintech

The most significant shift in how PE approaches financial services is the move away from backing consumer-facing fintech apps and toward the underlying infrastructure layer. Total PE investments in fintech hit $18.5 billion in 2025, up 44% YoY, even as the number of deals fell by a third, meaning individual investments are growing in size. Investors are making fewer, but bigger, bets on businesses with proven success rather than spreading capital across early-stage possibilities. The dominant investment channel has been into "financial rails plus data intelligence", platforms that handle the actual movement of money as well as using AI-driven analytics. Clearlake Capital's $7.5 billion acquisition of Dun & Bradstreet, a data and analytics infrastructure business serving financial institutions, is the clearest expression of this. The target has shifted from breakout fintech companies, to more critical firms that banks and insurers cannot function without. More broadly, B2B fintech has become the focus for PE, with investment in B2B-focused fintech companies reaching its strongest level since 2019 in 2025.

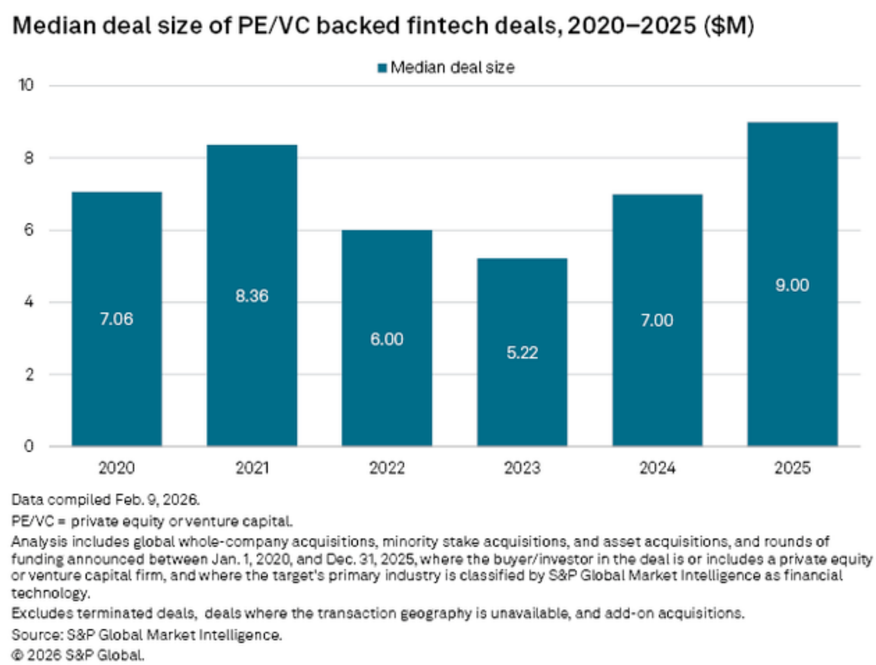
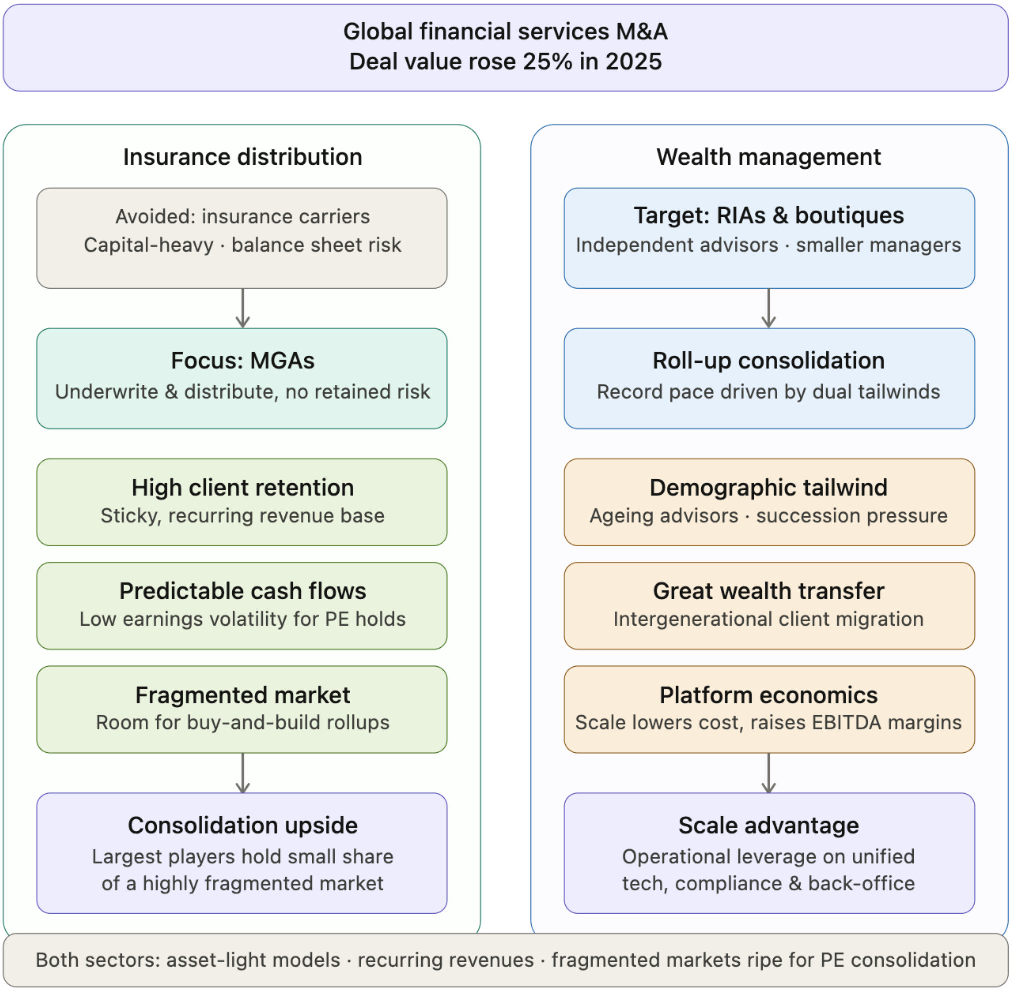


Figure 6: Median Deal Size of PE/VC-backed fintech deals over the past five years

2. Insurance and Wealth Management



Private equity has moved away from insurance carriers in favor of managing general agents. MGAs underwrite and distribute policies using authority delegated from a carrier, earning a recurring fee while the risk stays off their balance sheet. The model is capital-light, operationally leverageable, and produces sticky revenues: policies renew automatically, switching costs are high, and cash flows are predictable enough to support meaningful leverage. The market remains highly fragmented with no dominant player in most specialty lines, enabling buy-and-build strategies where bolt-on acquisitions at lower multiples accrete directly to platform value.

Wealth management follows an almost identical playbook. Independent RIAs and boutique managers are individually subscale, demographically pressured, and facing the great wealth transfer as assets migrate to younger inheritors. PE sponsors are industrializing a cottage-scale industry by consolidating advisors onto unified platforms, spreading fixed compliance, technology, and back-office costs across a far larger AUM base and capturing the resulting margin expansion. Both sectors are asset-light, generate recurring revenues, carry no regulatory capital burden, and sit in markets fragmented enough to reward aggressive consolidators, making them the most consistent and structurally attractive PE opportunity in financial services today.

Where Private Equity and Financial Services converge

Financial services has moved from a sector that private equity approached selectively to one that is now central to many sponsors' strategies. The shift reflects something deeper than a change in sentiment. The sector has structurally reorganised around the attributes that private equity values most: capital-light models, recurring revenues, and fragmented markets with identifiable consolidation opportunities.

The profit pool analysis set out in this report illustrates how economic value within financial services has migrated away from balance-sheet intermediation toward fee-based, technology-enabled businesses. That migration is structural rather than cyclical, driven by regulatory design, customer behaviour, and competitive dynamics that have been reinforced over a decade and show no sign of reversing. Private equity sponsors who recognised this shift early have generated disproportionate returns. Those who continue to apply a generalist lens to the sector will find the most attractive sub-sectors increasingly competitive and the least attractive ones structurally unappealing. The sponsors generating the highest returns in financial services today are not those with the most capital. They are those with the deepest knowledge of a specific sub-sector, the operational capability to transform what they acquire, and the regulatory fluency to navigate environments that consistently punish generalists. This combination is scarce, and scarcity is the foundation of persistent outperformance.

Looking ahead, the conditions for accelerated activity are in place. Dry powder is at record levels, hold periods are stretching beyond their intended windows, and easing interest rates are gradually reopening exit markets. Financial services will not be a uniform beneficiary of this recovery. The returns will concentrate in the same places they always have: insurance distribution, wealth management, B2B fintech infrastructure, and alternative asset managers, where fee-based models, structural fragmentation, and recurring revenue create the conditions that private equity is best placed to exploit.