KPMG Australian Fintech Survey 2023

Insights and key trends in the Australian fintech ecosystem

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Introduction

Daniel Teper
Partner,
Mergers & Acquisitions and
Head of Fintech (Australia)

Welcome to the 2023 Australian Fintech Survey.

2023 has been challenging for the fintech market both globally and in Australia, with both total investment and the number of deals materially dropping compared to the previous year, leading to a decline in the number of firms in the KPMG Australian fintech landscape ecosystem for the first time.

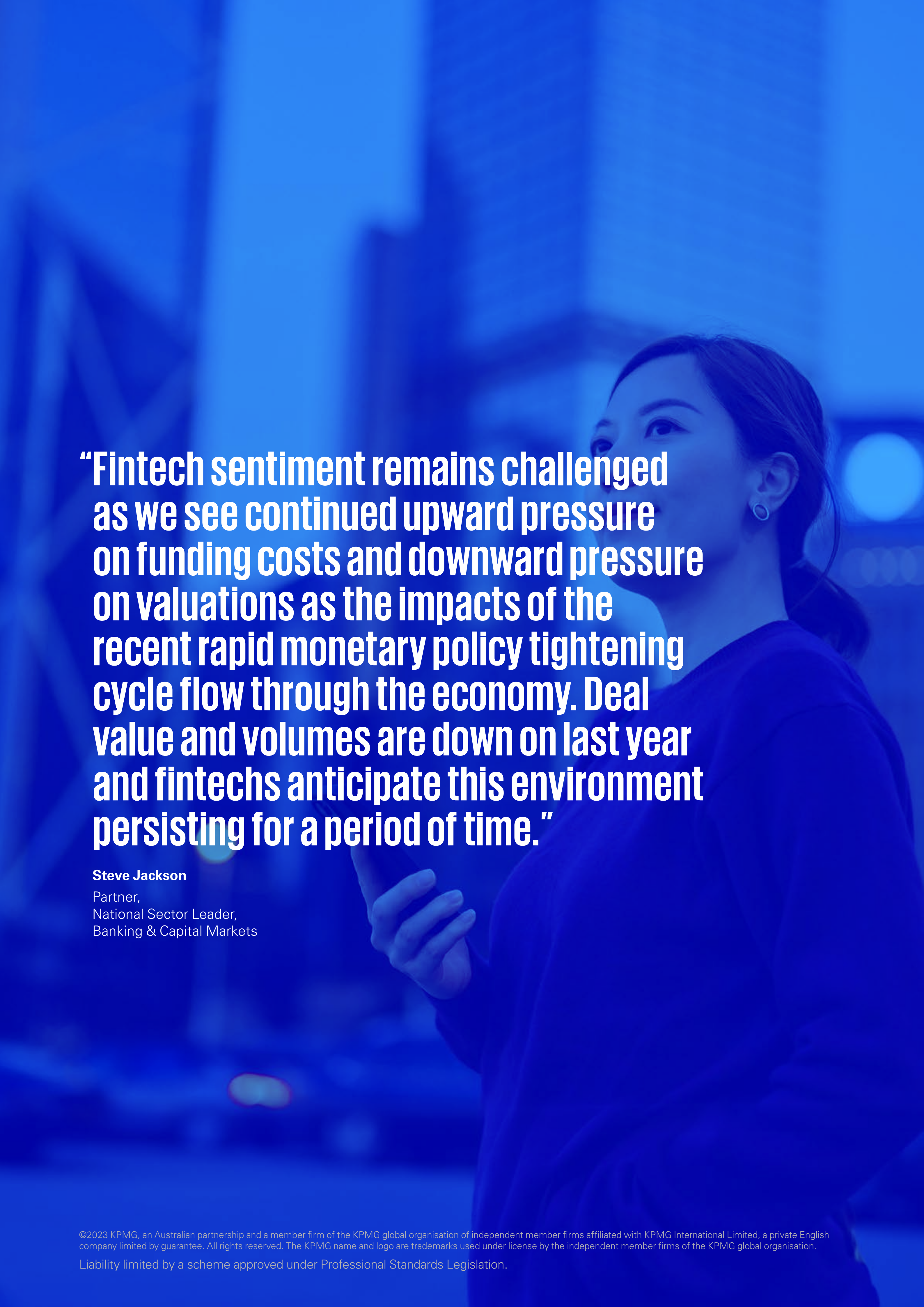
The cloud of uncertainty permeating the market continued to wear on investors, driven by factors including geopolitical tensions, global macroeconomic concerns and overall tech sector challenges.

This survey aims at highlighting the key trends and the overall sentiment of the leading Australian fintech businesses, focusing on areas of interest such as revenue and funding, resourcing, and customers.

As part of this initiative, we hope to bring you an insightful picture of the key opportunities and challenges currently top of mind for fintech leaders in Australia.

For the 2023 Australian Fintech survey, KPMG has received feedback from over 7.5% firms in the Australian fintech landscape, including some of the most prominent, mature and successful Australian fintech firms, as well as some of the newest and most nascent in the sector. In this report, you will be able to find commentary on and analysis of the responses to our questions.

Fintech landscape at a glance



> "Fintech sentiment remains challenged as we see continued upward pressure on funding costs and downward pressure on valuations as the impacts of the recent rapid monetary policy tightening cycle flow through the economy. Deal value and volumes are down on last year and fintechs anticipate this environment persisting for a period of time."

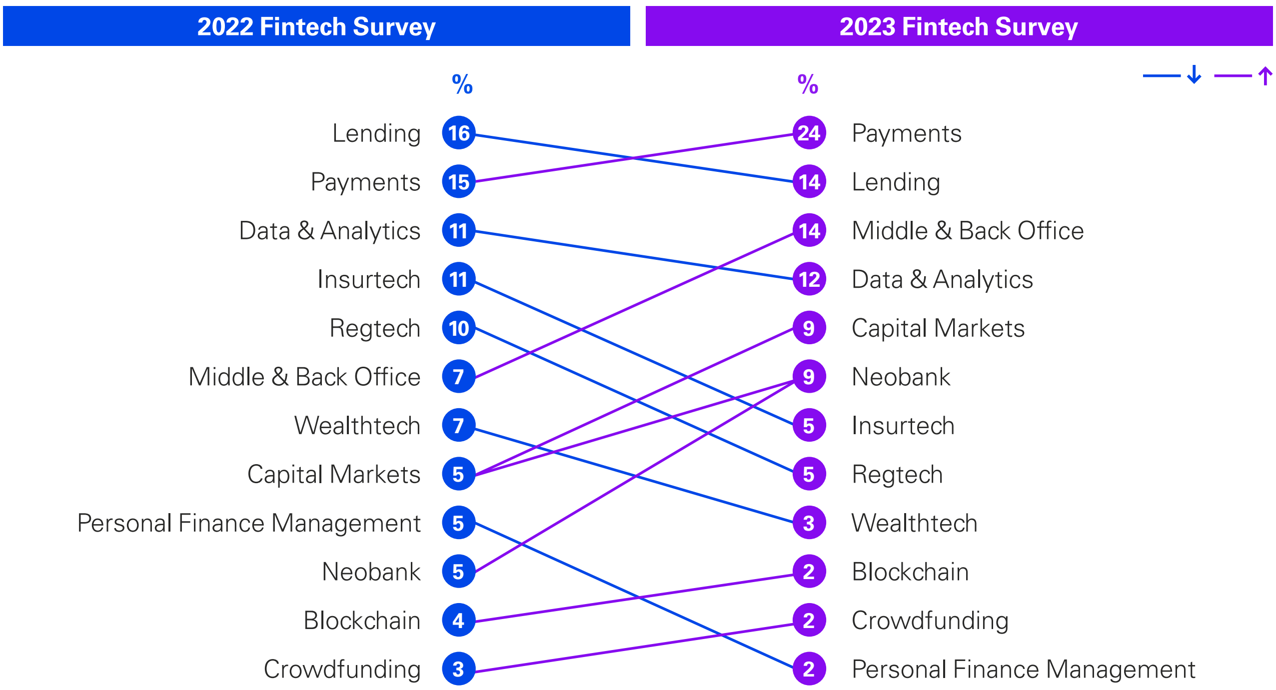
Steve Jackson

Partner,
National Sector Leader,
Banking & Capital Markets

Fintech landscape at a glance

The Australian fintech sector in 2023 has seen a continuation of the market themes previewed throughout 2022 with both deal value and count significantly lower than recent years. Inflationary pressures and Australia's higher interest rate environment headline the economic slowdown and subsequent shift in market sentiment amongst investors and Australian fintechs.

As we look ahead, a period of subdued and moderate growth, or even decline, is expected as continued uncertainty around economic conditions persists. However, with Australians being amongst the most digitally savvy consumers globally and certain fintech subsectors proving to be more resilient than others, there remains opportunity for growth in new innovative capability, with associated investment and targeted M&A activity towards sustainable business models. In parallel, a continued a period of rationalisation will likely take place over the near-term with consolidation expected in areas of over participation or where scale benefits are critical to building a profitable enterprise.



Which category of fintech best describes your firm's business?

Payments continues to be the leading fintech subsector in Australia and accounts for 24% of respondents in the survey. The RBA's recent Consumer Payment Behaviour Survey (CPBS) shows a continuation of trends such as:

- The decline in cash usage with a preference for credit and debit cards;
- Increased use of mobile devices (Apple Wallet, Google Wallet, etc.) particularly amongst consumers aged 18–29 and 40–49;
- Rising awareness of alternative payment methods such as QR codes and PayPal; and
- The rise in Buy Now Pay Later (BNPL) usage amongst all age groups (over 30% of CPBS respondents have used BNPL services in the last 12 months, relative to ~23% in 2019).

At the core of this, payments innovation is being driven by factors including the evolution of Australia's payment infrastructure (e.g. the New Payments Platform introduced in 2018) and behavioural changes induced by the pandemic.

Other material segments represented in the survey include Lending (14%), Middle & Back Office solutions (14%), Data & Analytics (12%), Capital Markets (9%) and Neobanks (9%). Personal Finance Management (PFM), Fundraising and Blockchain & Crypto are the least represented categories, each accounting for 2% of survey respondents.

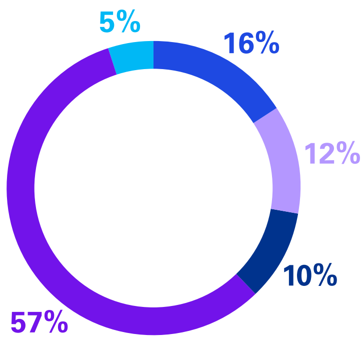
24%	Payments
14%	Lending
14%	Middle & Back Office
12%	Data & Analytics
9%	Capital Markets
9%	Neobank
5%	Insurtech
5%	Regtech
3%	Wealthtech
2%	Blockchain & Crypto
2%	Fundraising
2%	Personal Finance Management

What year was your company founded?

As we continue to see the Australian Fintech ecosystem mature, so do we see the profile of the companies within it.

Only 5% of survey respondents were founded post-2020 with the largest category represented being those founded in 2015–2020 (57%), a period of time where we saw material growth of, and investment into the sector.

The above is in line with the level of investments we have seen in the Australian fintech sector, which for the timeframe that goes from 2019 to 2022 have totalled to over $3 billion per year (Pulse of Fintech H2'22)

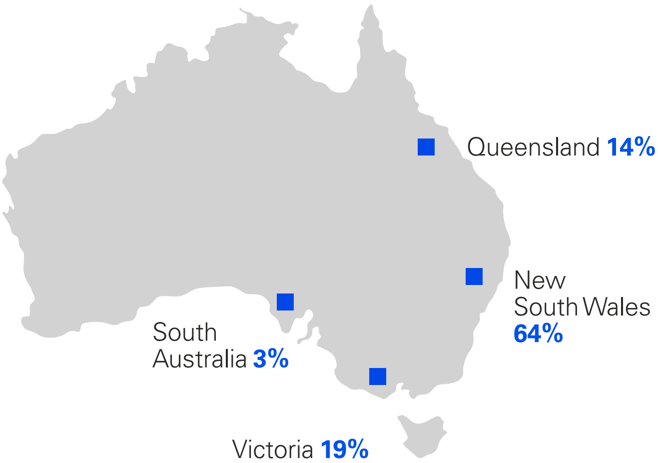


Before 2000 **16%**
2000–2009 **12%**
2010–2014 **10%**
2015–2020 **57%**
After 2020 **5%**

Where is your Australian headquarter?

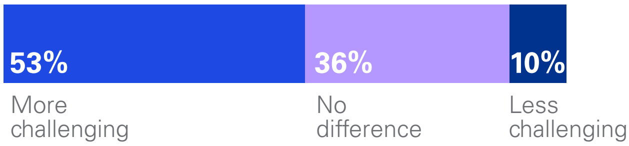
Around 83% of fintech respondents are headquartered in NSW and Victoria, with NSW hosting the overwhelming majority of fintech firms (64%). This reflects how concentrated fintech businesses are within Australia's two largest metropolitan areas. Both states also have favourable environments with regard to availability of talent, being in close proximity with established global technology and financial services firms.

Queensland and South Australia, whilst only making up 17% of the total respondents, have grown considerably in recent years. Particularly Queensland (14%) where the local fintech ecosystem has been thriving as a result of a large number of young and skilled migrants relocating to the state over the course of the pandemic, and the rapid rise in the adoption of remote working easing the difficulty of hiring talented professionals.



Compared to last year, are you finding the current economic conditions more or less challenging for your business?

Over half of the respondents find the current economic conditions more challenging than last year, highlighting the lingering concerns around the economy and notably the RBA's tightening monetary policy. The tougher capital raising environment also creates difficulty around accessing lending and credit facilities which in turn impacts the ability to scale up and expand operations, or simply survive. This progressive shift in market conditions, together with downward pressure on valuations, has resulted in a material fall in investor sentiment across the fintech sector, evidenced by a deal count down 19% (43 deals) compared to the second half of calendar year 2022, while the deal value of the transactions that took place in H1'23 is down approximately 49% ($349 million) on the previous half of the year (KPMG's 'The Pulse of Fintech H1'23).



Total fintech investments in Australia

$349 million in H1 **2023**

$3.3 billion in **2022***

$3.6 billion in **2021**

$3.2 billion in **2020**

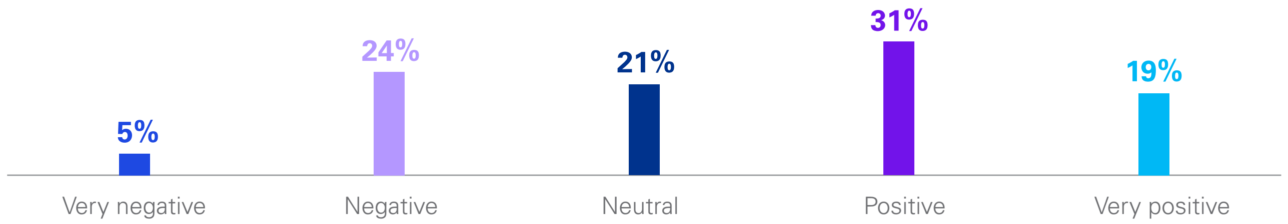
$3.8 billion in **2019**

*Source: KPMG, The Pulse of Fintech H2'22
– data exclude the Afterpay transaction

Compared to last year, what is your business sentiment and overall outlook for the economy over the next 12 months?

The aforementioned uncertainty around the outlook of economic conditions is substantiated by the varied survey responses (approximately one-fifth of respondents are neutral on Australia's economic outlook). Organisations with more sustainable business models, tested value propositions and a greater focus on bottom-line growth can expect to continue to attract funding as they navigate through this increasingly complex operating environment. Collectively, 29% of respondents signal negative sentiment for the next 12 months relative to 50% holding a more optimistic view.

Interestingly, of the 29% that have a 'negative' or 'very negative' outlook for the economy over the next 12 months, 71% have international operations; potentially reflecting the geopolitical and macroeconomic volatility seen on the global stage recently, as well as the likely cost pressures involved with international expansion.



What do you think will be the key challenge for your business in the next 12 months?

Respondents to the survey have indicated that their key challenges over the next 12 months will be predominantly raising capital (29%), customers (22%), resourcing (22%) and revenue contraction (14%).

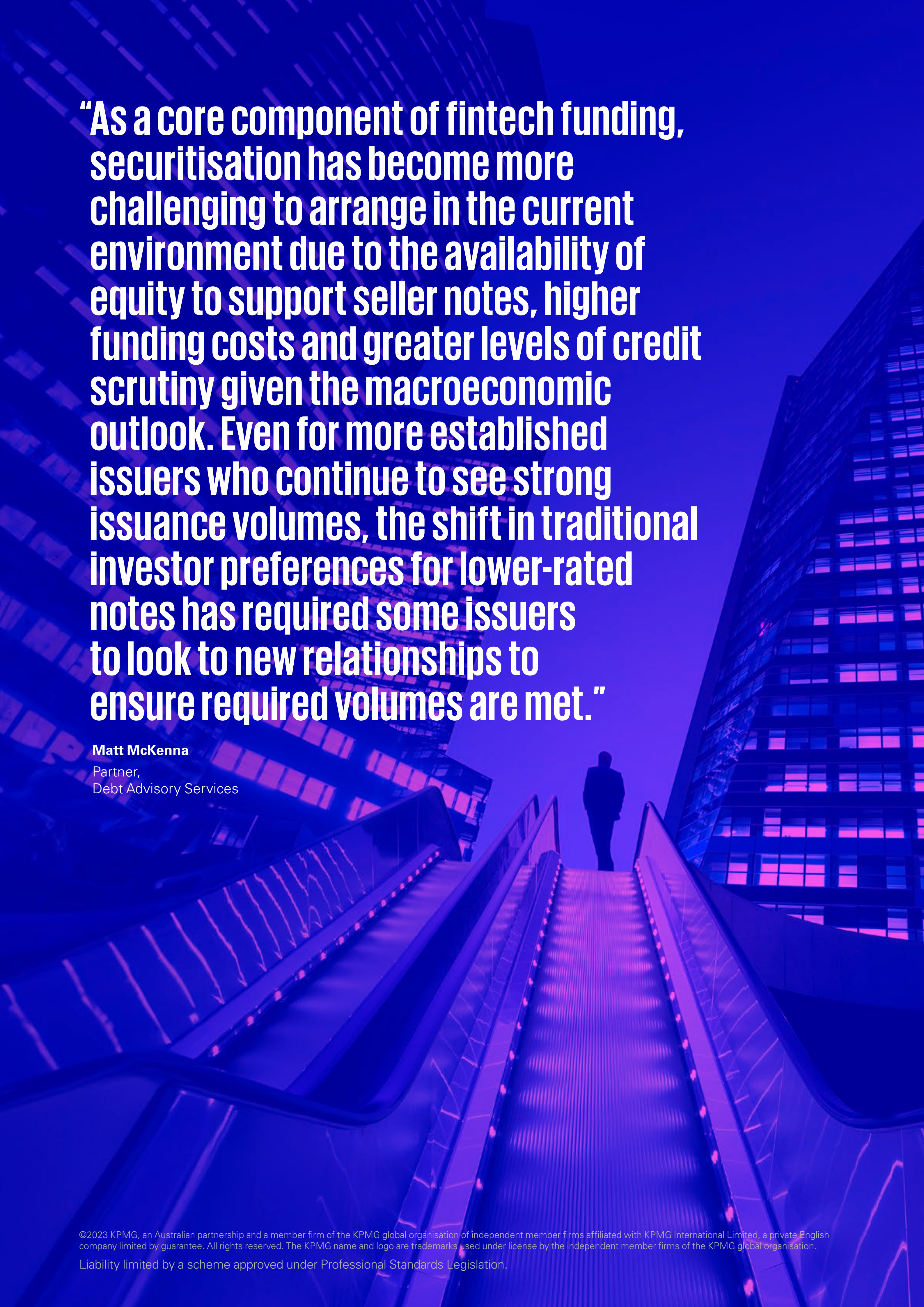
Of the respondents that reported raising capital as the key challenge, only 11% were companies in the payments and regtech sector – sectors that attracted substantial investments in 2022 (Source: KPMG Fintech Landscape 2022). For firms in the payments and regtech sectors, 42% of respondents have cited customers as a key concern for the coming months; likely indicative of their focus on retaining and/or expanding their customer base, rather than raising capital.

29%	Raise capital
22%	Customers
22%	Resourcing
14%	Revenue contraction
12%	Other

2 Revenue and funding

“As a core component of fintech funding, securitisation has become more challenging to arrange in the current environment due to the availability of equity to support seller notes, higher funding costs and greater levels of credit scrutiny given the macroeconomic outlook. Even for more established issuers who continue to see strong issuance volumes, the shift in traditional investor preferences for lower-rated notes has required some issuers to look to new relationships to ensure required volumes are met.”

Matt McKenna
Partner,
Debt Advisory Services



Revenue and funding

What is your current annual revenue? (A$)

28%	<$1,000,000
26%	$1,000,000–$4,999,999
10%	$5,000,000–$9,999,999
12%	$10,000,000–$24,999,999
12%	$25,000,000–$49,999,999
7%	>$50,000,000
5%	N/A – business is pre-revenue

The overwhelming majority of Australian fintech firms are in the process of scaling, as evidenced by the high number of respondents reporting annual revenues below $1 million (28%). More than half of respondents (54%) reported annual revenues of less than $5 million – with only 7% reporting revenues of more than $50 million. Yet this number is up from 4% last year, reflecting how the fintech sector is slowly maturing as firms begin to find their feet and increase turnover. The correlation between the maturity of the fintech companies and their revenues is further echoed by the fact that more than half (55%) of respondents that were founded before 2015 are reporting more than $25 million in annual revenue – compared to just 11% of firms who were founded after 2015. Additionally, for the firms that are generating more than $25 million, 73% have more than 100 employees with 55% of them having domestic teams only.

When was your last capital raise?

31%	In the previous 6 months
22%	Over 2 years ago
21%	Have not raised capital before
16%	In the previous 1–2 years
10%	In the previous 6–12 months

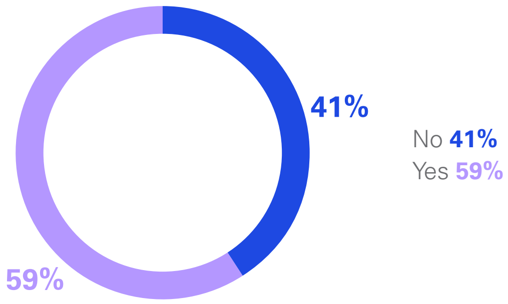
41% of respondents indicated they have raised capital in the last 12 months, while 21% of respondents have indicated that they have not raised capital before. Out of the respondents that indicated they have raised capital in the past 12 months, 67% of them also indicate that they intend to raise capital again over the course of the next year and 71% reported that they find the current economic conditions more challenging.

What is the last funding round you completed?

Amongst survey respondents, the most common stage of capital raisings taken place over the past 12 months was seed investment at 26%. Seed investment, traditionally the first funding an organisation receives, suggests many respondents are still in the early stages of their development. On the other hand, the percentage of respondents indicating that they are either in Series A (16%) or Series B (17%) of their funding journey is approximately 33%. To be noted that 21% of respondents have yet to raise capital, while the more mature fintech firms (Series D and more) are represented in 16% of survey responses. Understandably, out of the respondents at Seed, Series A and Series B stages, 35% see raising capital as their key challenge for the next year, while 24% see resourcing as their key concern over the same timeframe.

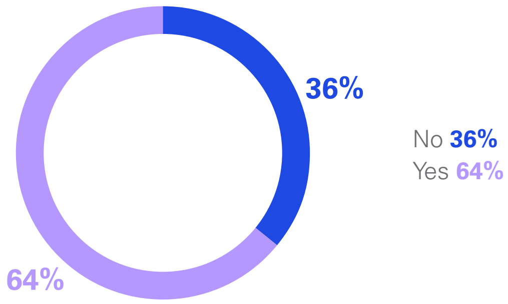
26%	Seed
21%	Never raised
17%	Series B
16%	Series A
16%	Series D and more
3%	IPO
2%	Family and friends

Do you expect to raise capital over the next 12 months?



Fintech firms in Australia remain split on whether or not they expect to raise capital over the next year. Around 59% of respondents indicated that they expect to raise capital over the next 12 months, an 8% decrease compared to last year's results. This comes as no surprise as the material shift in investor sentiment, coupled with the current economic headwinds (including inflationary pressures and high rates) have negatively impacted fintech firms and their ability to raise capital, as well as implied valuations (often resulting in increased dilution for founders/existing shareholders).

Do you currently claim R&D tax incentive?



The R&D Tax Incentive is the government's principal program to support businesses to invest in R&D. It provides R&D tax offsets over and above the applicable tax rate where the amount you receive depends on a range of factors (e.g. entity type, ownership and turnover, level and location of R&D being undertaken, etc.).

Given that the fintech sector is inherently reliant on technological innovation, research and development remains an integral area of investment for fintech firms.

On the backdrop of that, 64% of respondents indicated that they are currently claiming the R&D Tax Incentive, suggesting that the majority of fintech businesses are still utilising this policy instrument.

In fact, as fintech firms move through seed, Series A and Series B growth stages, investors want confidence that the firm has in place a robust R&D Tax Incentive structure and claim process.

3 Resourcing

"The venture capital funding crunch of 2023 has impacted Australian fintechs, who have had to find the right balance between hiring for growth and cutting costs to preserve their runway. Despite the challenging market, the demand for fintech talent remains robust, especially for technical skills, and is expected to increase over the next 12 months."

Amanda Price

Partner,
Head of KPMG High Growth Ventures

Resourcing

How many full-time employees does your company have?

Half of our respondents have between 10 to 50 employees, with only 19% of firms having more than 100 employees. In comparison to last year's results, the number of firms with more than 100 employees is up from 11%, and this aligns with the underlying trend of fintech firms becoming increasingly mature and requiring to scale.

Of the companies with 50+ employees, 88% are operating in Australia's two largest states – NSW and Victoria – highlighting the fact that when it comes to the fintech ecosystem in Australia, it is still very much concentrated in these two metro areas. However, in recent years, we have seen more and more fintech firms setting up operations in states such as Queensland, indicating a broadening of the fintech landscape outside of NSW and Victoria.

50%	Between 10 and 50
22%	Less than 10
19%	Over 100
9%	Between 50 and 100

Has the last 12 months seen an increase or decrease in headcount for your fintech?

Despite ongoing frailties around the Australian economy, the labour market is performing strongly. Hence, a large majority (85%) of respondents have either seen their headcounts increase (59%) or remain the same (26%) over the last 12 months. However, in recent months, the trend has decisively shifted, with cost management becoming a more prominent area of focus in the current environment and the economic outlook is softening as the year progresses (KPMG: Australia Economic Outlook: Q2 2023). Looking ahead, we expect to see fintech firms rationalising their spending in key areas including paying particular attention to staffing models.

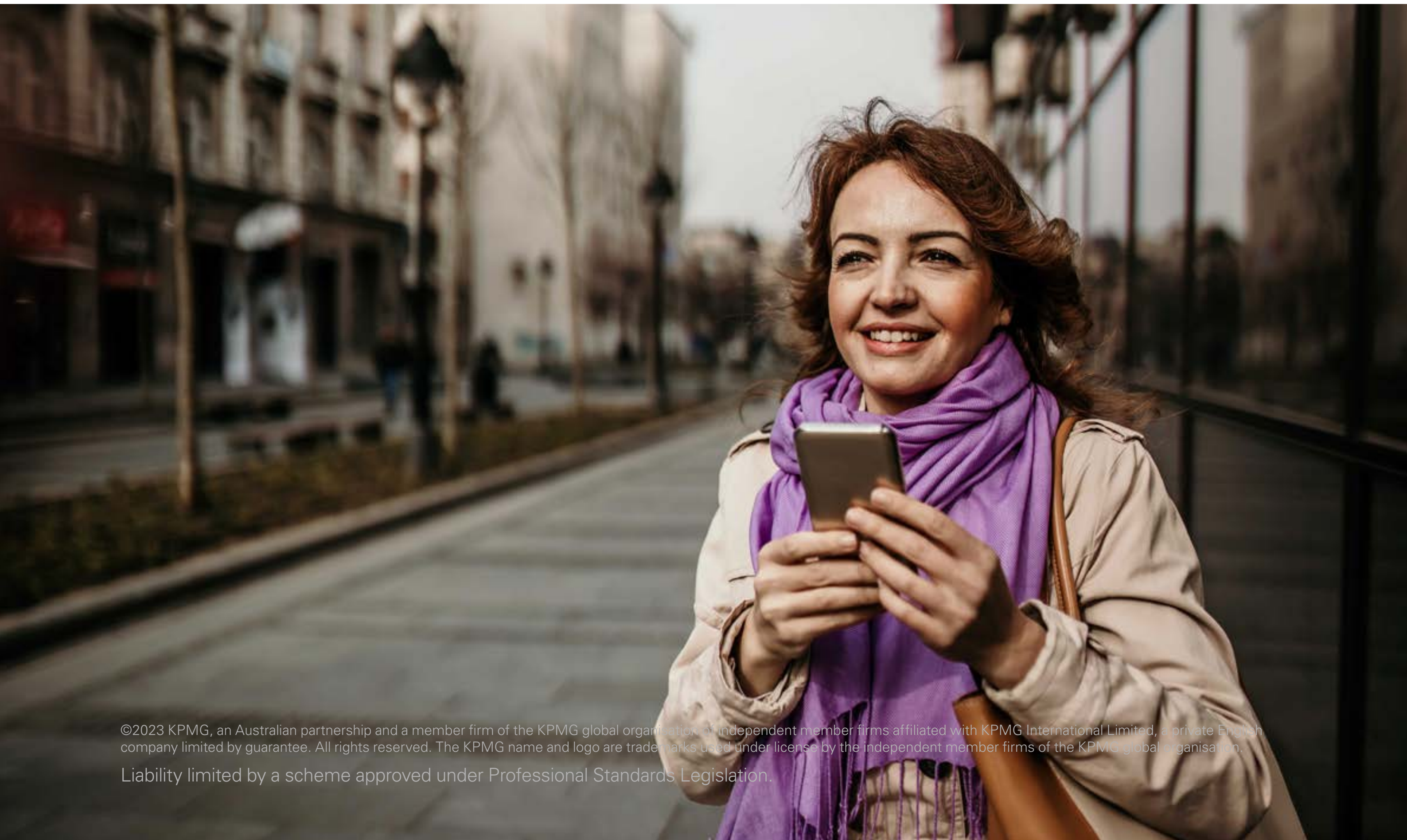
59%	Increase
26%	No change
16%	Decrease

Which of your teams are located overseas?

The survey results confirm that 27% of respondents have teams located exclusively in Australia; and out of those, 36% are firms that have either never raised or are at Seed stage, while 48% are firms that are either at Series A or Series B funding round – highlighting how early stage startups are more likely to have teams within our domestic borders.

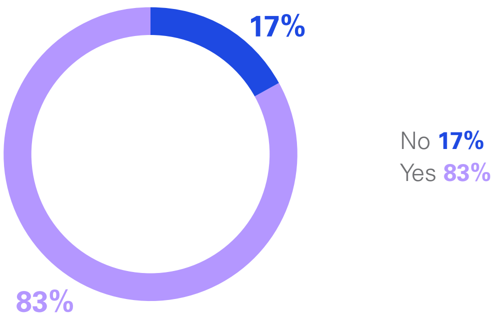
For the respondents that have indicated they have teams overseas, 18% are software development teams, 13% are engineering teams and 12% are sales and marketing teams. Software development and engineering are core functions for fintech firms, and it emerges that Australian fintech firms are comfortable relying on overseas talent for these key capabilities. Notably, for R&D, Finance and HR, Australian fintech firms prefer to rely on local talent rather than overseas talent.

27%	None
18%	Software Development
13%	Engineering
12%	Sales and Marketing
10%	Customer Support
8%	Operations
5%	Product
3%	Finance
3%	HR
1%	R&D



Do you plan on hiring in Australia in the next 12 months?

The majority (83%) of respondents reported their intention to hire in Australia over the next 12 months, while 17% of respondents indicated they are not planning to hire in Australia. Interestingly, out of the respondents indicating that they are planning to hire in the next 12 months, 29% of them have also indicated that they are not satisfied with their ability of successfully recruiting talent in Australia.



In fact, the normalisation of global supply chains and production over the course of 2022, have caused a material uptick in demand for additional workers. Due to the multiple global labour mobility challenges at the time, Australia has had to largely rely on its own labour supply for sourcing the additional personnel required (KPMG's Australia Economic Outlook: Q1 2023).

As a consequence, Australia has registered a decade-low unemployment rate and at the same time a decade-high participation rate, which in turn resulted in levels of wages growth not seen since 2012.

As highlighted in multiple KPMG publications, (Australia Economic Outlook: Q2 2023) while Australia's labour market has remained strong throughout 2022 and the beginning of 2023, it is now expected to weaken, with the unemployment rate forecast to increase from its current low level of 3.6% to a high 4% range by the end of 2024.

Additionally, the strong demand for talent, on the back of last year's border reopening to eligible visa holders (including skilled migrants) may have dampened, as fintech firms which traditionally have smaller, leaner workforces, have already recruited and no longer have the pent-up demand for work as was the case during the pandemic.

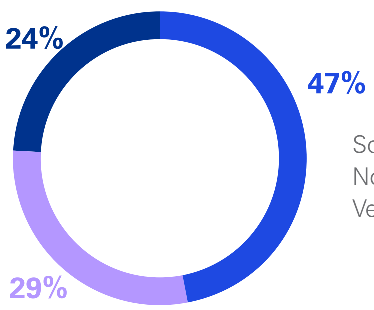
Which functions are the highest priority of recruitment?

26% of respondents have identified software development as their priority of recruitment, with 24% of respondents indicating that sales and marketing will be their focus for recruitment and 17% selecting engineering as their priority.

Interestingly, these key areas of recruitment are also the top three teams that are most likely to be based overseas, indicating that Australian fintech firms are comfortable leveraging talent remotely in order to grow and scale.

26%	Software Development
24%	Sales and Marketing
17%	Engineering
12%	Product
10%	Customer Support
5%	Operations
3%	Finance
3%	R&D
0%	HR

How satisfied are you with your ability to recruit in Australia?



Somewhat satisfied **47%**
Not satisfied **29%**
Very satisfied **24%**

Regarding fintech firms' ability to recruit in Australia, only 24% of respondents are very satisfied with their ability to recruit locally, with 76% of respondents being somewhat satisfied or not satisfied.

The percentage of fintech firms not satisfied with their ability to recruit in Australia is of particular interest as it is up more than double compared to last year's results. This aligns with the answers to the previous questions which indicated that Australian fintech firms are increasingly relying on teams overseas to run their operations.

This also indicates more unfavourable conditions in the labour market in Australia. With the unemployment rate in Australia at its lowest level for more than 50 years, Australian leaders report the challenges around talent acquisition and retention have become more acute in the last 12 months. Staff shortage is a real issue, and Australia is now past full employment and unable to find the required skills to fill vacant jobs (KPMG: Top 5 issues for Australian business leaders in 2023).

Customers

"A combination of an increasingly complex regulatory environment and a need for productivity gains driven by economic uncertainty are continuing to drive growth in the Regtech market. The most successful vendors are those that are leveraging AI to reduce the manual requirements of risk and compliance teams to allow them to focus on emerging risks that require human intervention, thus lowering costs, increasing productivity and adding value to the business. The adoption of Regtech solutions is closely linked to the Big Data initiatives that most organisations are currently undertaking, and as these come online we will see the adoption of Regtech and emerging technologies accelerate."

Craig Davis
Partner,
Financial Risk Analytics
and Head of Regtech

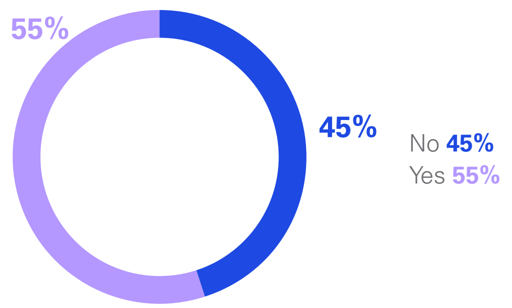
Customers

Which of the following best describes your primary customers?

Collectively, 83% of respondents operate primarily within the B2B space relative to 17% serving individuals within the retail market. This disparity is likely driven by the demand from traditional finance and non-financial businesses seeking to bolster their service offerings and improve their customer experience. One influencing trend is the rise in embedded finance, which can be defined as the integration of financial services or products within a non-financial services company's value chain to form a seamless and interconnected customer experience. Retailers are leveraging BNPL companies, supermarkets are offering credit cards and digital banks are providing banking-as-a-service – these are common examples of fintechs operating within the B2B segment to integrate into established businesses.

31%	SMEs
21%	Big corporates
21%	Mid-tier and enterprise
17%	Retail/individuals
2%	B2B/B2C (lenders and borrowers)
2%	Banks
2%	Banks, credit unions, finance companies and mutuals
2%	Large investment institutions and banks
2%	Other fintechs and FIs emerging to corporate set
2%	Retail and micro SMEs

Does your company operate outside of Australia?



In a close to even split, 55% of survey respondents have operations outside of Australia (rising from 51% in 2022), with 45% indicating they only conduct business locally.

Australian fintech companies expanding their operations overseas highlights the positive trend of local fintech firms seeking to scale beyond our domestic borders.

Fintech firms seeking to expand overseas may be taking advantage of their offshore resources to facilitate expansions, particularly when it comes to engineering and software development teams. Survey results show 66% of Australian fintech firms with employees outside of Australia also have customers overseas. This might suggest that fintech respondents find value in having teams overseas when it comes to expanding internationally.

Australian fintech firms are active overseas in the following geographies:

In terms of Australian fintech firms operating overseas, most respondents conduct business in developed, English-speaking countries with lower cultural barriers and similar regulatory frameworks. Amongst the fintech respondents operating overseas, 13% of them are operating in New Zealand, 12% in the UK, 11% in the USA, 10% in Singapore and 7% in Canada. What stands out from the above, is the presence of Singapore as the only non-English speaking country in the top four overseas markets in which Australian fintech firms have a presence. China and India instead, despite these being large markets with good proximity and connections to Australia, appear to have not been targeted as of yet by our fintech respondents.

13%	NZ
12%	UK
11%	USA
10%	Singapore
7%	Canada
6%	Europe
6%	South Africa
4%	Other East Asian countries
3%	South America
3%	China
2%	Middle East region
2%	India
22%	NA

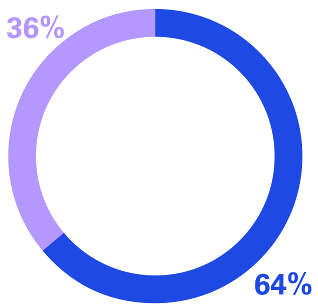
Do you plan to start/continue international expansion in the next 12 months?

Two-thirds of respondents are planning to expand internationally over the next 12 months, which could include both initial expansions and further international expansions. This is notably higher than the sentiment from last year, where less than half shared an intent to expand.

Out of those that already operate outside of Australia, 88% have signalled an intention to continue international expansion, indicating the prevalence of opportunities in untapped markets, optimism around rising consumer demand overseas as well as the degree of importance Australian businesses place on diversification.

Of those planning to expand internationally, there is an equal proportion (totalling 26% of respondents) that are planning to expand into the USA and UK. This trend isn't surprising, as expanding into culturally similar, English-speaking nations eases some of the many market entry barriers fintech firms are faced with. Interestingly, New Zealand has risen as a popular destination for international expansion, selected by 11% of respondents in 2023.

Singapore, Europe, Other East Asian countries and Canada also feature in the respondents' preferences as the most selected geographies out of the non-English-speaking ones, although to a lesser extent compared to the UK, the USA and New Zealand.



No **64%**
Yes **36%**

Australian fintech firms planning to start/continue their international expansion want to expand in these geographies:

13%	UK
13%	USA
11%	NZ
9%	Singapore
7%	Canada
7%	Europe
7%	Other East Asian countries
5%	India
4%	Middle East region
2%	South Africa
2%	China
19%	NA

5 Interviews

alex.bank

Segment: Banking

Year founded: 2018

HQ: Brisbane, QLD

Capital raised to date: $83.3M

N. of employees: 40

FY23 revenue: $2.6M

Simon Beitz
CEO,
Alex Bank

What do you think will be the key challenge for your business over the next 12 months?

Over the next 12 months, Alex Bank has a distinctive chance to expand its operations and achieve profitability. Despite the economic challenges, particularly the ongoing issue of high inflation and the lasting impact of elevated interest rates, Alex Bank was specifically designed to manage market volatility. I am confident that we are in a strong position to pursue growth and enhance our customer service.

What is your sentiment and view on the economy for the next 12 months?

Generally, I am optimistic about the economy as the fundamentals remain strong, notwithstanding the challenges as higher interest rates work through the system.

We are all aware of the pressures on household budgets and risks to businesses and also note the potential for green shoots to come to life over the next year. Depositors and savers, however, are seeing a return to yield and opportunities to invest.

What is your outlook for digital banks in the Australian fintech landscape?

Banking in Australia is typically seen as boring, overly complicated and highly regulated. Traditional banks have made consumers, small businesses, and enterprises deal with this complexity.

Digital banks, on the other hand, can offer a more straightforward and smooth experience. They can partner with fintech companies and other platforms that integrate financial services into their models, offering necessary banking services and supporting innovative products.

Compared to last year, are you finding the current economic conditions more challenging for your business? How so?

Our business model is a resilient one and we are finding more opportunities this year to grow the business as non-bank competitors start to be impacted by funding pressures and increased arrears in their lending portfolios. Alex Bank is exploiting its competitive funding advantage and leveraging the benefits of our Banking licence.

How satisfied are you with your ability to recruit and retain talent in Australia? Any challenges?

Alex Bank operates with a lean, highly talented and committed team.

Retaining talent has not been an issue to date and we continue to recruit for roles where applicants are excited to be working with Alex Bank to revolutionise banking.

alex.bank

What was the rationale behind the decision of establishing your HQ in Queensland?

Establishing in Brisbane was driven by several key factors. It helped us optimise our startup budget by minimising set-up costs compared to larger capital cities; and allowed us to leverage local relationships, with many of our early investors located here.

Being Brisbane-based proved advantageous during the pandemic, enabling us to accelerate our programs of work and embed our technology platform. Ultimately this led to Alex Bank becoming the first Australian-owned bank to receive its ADI from APRA since the start of the pandemic.

While our main office is in Brisbane, we operate nationally with offices in Sydney and Melbourne.

Looking ahead, what do you think will be the biggest opportunity for digital banks in Australia?

The primary opportunity for digital banks in Australia lies in the deliberate targeting of specialised markets, the utilisation of intelligent and ethical technologies, and harnessing their agility as a competitive advantage. By designing products for specific customer segments and adapting quickly to the ever-changing market dynamics, digital banks can position themselves for sustained success in a rapidly evolving landscape.

How are you finding the current capital raising environment?

Raising money is never easy – the current environment is challenging due to a number of macroeconomic factors as the market experience of new entrants has shown mixed results.

The fundamentals have not changed, however, with capital available to those business models that can demonstrate return on investment and show simplicity, scalability, efficiency and nimble execution.

tic:toc

Segment:
Technology Platform

Year founded: 2017

HQ: Adelaide, SA

Most recent capital raise:
$54 million Series D

N. of employees: 150

Anthony Baum
Founder and CEO,
Tic:Toc

What do you think will be the key challenge for your business in the next 12 months?

The key challenge for us over the next 12 months will be to support the ongoing success of our platform partners during the current period of economic uncertainty, driven by high interest rates and cost of living pressures. We will continue to invest in our technology to ensure our partners can provide the seamless lending experiences their customers demand. This means remaining hyper-focused on our pursuit of increased automation in our technology solutions to optimise customer experiences, drive efficiency, remove costs and accommodate scale. All while ensuring our partners meet their ongoing compliance obligations. We believe it's this focus that will ensure Tic:Toc and our partners will emerge from the current headwinds with more robust businesses and market share growth.

What is your sentiment and view on the economy for the next 12 months?

We believe there will be ongoing uncertainty in the economy over the next six months before green shoots emerge in the second half of next year. Our view is that CPI will soften from the levels seen in 2023, which will support a reduction to the cash rate in the second half of 2024. We think this will translate to stronger business and consumer confidence levels, which will drive an increase in new home purchase activity.

Against this backdrop, we believe there's a risk that a number of fintechs will fail – in particular, those with weak balance sheets, and without diverse revenue streams. These challenges will be compounded by the lack of capital available in the current market, which a lot of growing businesses have had ready access to over the prior 2–3 years.

In saying that, businesses who are able to ride out the next 6–12 months will emerge significantly stronger on the other side, and can capitalise on the upside we feel remains here in the Australian market.

What is your outlook for lending firms in the Australian fintech landscape?

It's going to continue to be a challenging environment for non-bank lenders operating in Australia, as they wrestle with the increasing cost of, and diminished access to, wholesale funds. We have already seen this cause margins to shrink relative to the major banks, and over the longer term, will ultimately hamper their profitability and ability to remain competitive.

Fortunately for Tic:Toc, when we launched in 2017 we made the conscious decision to operate an asset light business model. This means we've been able to focus on being a platform technology company first and foremost, leveraging the balance sheet of our strategic funding partner (Bendigo & Adelaide Bank) to offer competitive lending solutions to our immediate customers or those of our partners.

Our unique business model has multiple revenue streams and has evolved to a point where more than half of our revenues are now sourced from our Enterprise business, supporting numerous partners including two of Australia's biggest banks, major brands like Qantas, and of course other fintechs and lenders.

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Compared to last year, are you finding the current economic conditions more challenging for your business? How so?

We are starting to see an improvement in economic conditions for the Tic:Toc business. Last year we saw 12 consecutive rate rises, lifting the cash rate to levels last seen in 2012. This cost pressure, combined with the wave of customers rolling off low fixed rate home loans to higher variable rates, saw unprecedented levels of competition amongst lenders, with loss-lead pricing and incentives such as cashbacks to retain and win market share. In recent months, we have seen lenders pull back these incentives as they refocus on achieving a higher return on their capital. This change in market behaviour and the recent stability in the cash rate, has translated to increased activity across our platform. Although refinancing activity remains strong, we are now seeing the impact of increased cost of living pressures and high interest rates on the level of new property purchases, as borrowers come to terms with restricted borrowing capacity and ability to service loans.

If you were to increase your footprint in other markets overseas beyond New Zealand, which markets would you consider and why? Have your expansion plans changed over the last 12 months?

I was fortunate to complete a six-week research trip across the UK, Canada and the United States in mid-2023. The purpose of the trip was to identify and engage comparable companies with similar technology capabilities, and also seek out business opportunities for Tic:Toc in new regions.

The trip gave me external confirmation that we are not only a market leader here in Australia, but an industry leader around the world in three key areas: 'out of the box' data access, enrichment, automation capability; the ability to configure credit/risk appetites at a granular level; and the ability for users to interact with data via our user interface layer.

Based on what we currently know, the most likely market we would expand to would be the UK. This is because of the similarities we share in the financial sector, the high degree of government support for fintechs, and the potential for Tic:Toc to increase the levels of digitisation across the UK consumer lending market (which continues to accelerate).

Although there is obvious potential for growth in new markets, we are very cognisant of the required investment and management focus needed to make global expansion successful. These views have only strengthened over the past 12 months, so we will be focusing on our customers and partners in Australia and New Zealand in the short term.

How satisfied are you with your ability to recruit and retain talent in Australia?

Tic:Toc has experienced steady growth since 2017 and there's now ~140 'Tockers' around Australia, most of whom are based here in our head office in Adelaide. We are a values-led organisation and the culture we've been able to build is something we are really proud of. It's one of the main reasons we continue to attract and retain top Australian talent across all functions of our business.

Our employee engagement scores – which we use to measure how positive employees feel about Tic:Toc – continue to exceed fintech industry averages. Over the next 12–18 months we're hoping to lift that even further and set a new benchmark for fintechs here in Australia.

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What was the rationale behind the decision of establishing your HQ in South Australia?

Simply put, it's where myself and a small group of us founded the business. Better still, many of that small group remain employees of Tic:Toc today.

While we remain proud of our South Australian roots, the breadth and location of our customers has grown and evolved with our business. We now have a modest office in Sydney that continues to grow.

Looking ahead, what do you think is the biggest opportunity for fintech firms in the lending space?

We believe the consumer data right (CDR) and rollout to the banking sector (Open Banking), is the biggest opportunity for fintechs in the lending space. CDR has the potential to drive more competition amongst lenders, which will ultimately enable greater choice for consumers. In the home loan sector for example, CDR will give consumers the ability to readily compare and switch loan products and services as their needs evolve. Despite Tic:Toc's role in pioneering innovation in this area, it still remains challenging and time-consuming for customers.

CDR also has the potential to drive innovation and be the catalyst for an influx of new products and services. Irrespective of what form they take, they will ultimately benefit Australian businesses and consumers. Nimble fintechs like Tic:Toc can be the instigators or the facilitators of this potential new wave of change.

How are you finding the current capital raising environment?

We are acutely aware of the challenges facing businesses currently seeking capital at a robust valuation. In particular, those who are not yet cashflow positive or without a reasonable line of sight to profitability. However, we do believe there is capital available for businesses with a unique value proposition and track record of executing against their strategy.

Tic:Toc is in the privileged position of boasting a strong capital position, having raised $54 million in the past 18 months from existing shareholders. Our strong balance sheet, steady growth from inception, and increasing number of large platform partners licensing our technology, means we do not need to raise additional capital in the foreseeable future.

6 Closing remarks

Closing remarks

Daniel Teper
Partner,
Mergers & Acquisitions and
Head of Fintech (Australia)

In 2023 we have seen a continuation of the broader market themes highlighted towards the end of calendar year 2022. The overall more challenging economic market conditions coupled with a material shift in investor sentiment, have led to subdued market activity, hindered also by the high rates environment and inflationary pressures. In fact, macroeconomic conditions have negatively impacted investments overall, as risk profiles have materially shifted now that investors are more cautious and prioritising safer investments over higher risk growth investment opportunities. These factors have contributed to creating a capital raising environment which is difficult to navigate, particularly for earlier-stage tech firms in the start-up and scale-up community. In this new environment, those fintech firms focused on slowing the burn rate, containing costs, and achieving self-sustained profitability in the near term, will be the ones who will successfully weather the storm and be well placed to succeed as market conditions improve.

Looking ahead, should Australia be successful in taming inflation, it is reasonable to assume that a few of the above mentioned negative catalysts will ease their pressure on the market, allowing investors to once again turn their attention to growth investments in the sector and fintechs to refocus their attention on innovation and expansive growth.

Our thought leaders

Daniel Teper
Partner,
Mergers & Acquisitions and
Head of Fintech (Australia)

Daniel is an experienced M&A adviser with extensive credentials in the provision of M&A advisory and strategic services, with a focus in the Financial Services and TMT (Technology, Media and Telecommunications) sectors. During his career, Dan has completed in excess of 50 transactions, working across ASPAC, Europe, the Americas and beyond for a variety of public and private clients. In addition, Daniel is Head of Fintech for KPMG Australia, representing the firm's capabilities across the full fintech landscape including working with fintechs; incumbent financial services providers looking to engage with the sector; and industry associations and government bodies supporting the wider ecosystem.

Steve Jackson
Partner,
National Sector Leader,
Banking & Capital Markets

Steve specialises in global banking and capital markets, and has worked for KPMG in both the UK and Australia. He is KPMG's National Sector Leader for Banking & Capital Markets, the Client Lead Partner for the foreign banks sector in Australia as well as supporting a broader range of global institutions.

He is experienced across a range of domains including risk and regulation, regulatory engagement, supervision and enforcement, technology and transformation programs including data and digital strategy and cloud adoption, and M&A, ECM/DCM and tax and legal matters.

He is a frequent coach to our clients and our own teams, particularly around personal growth and resilience. He leads 'Spotlight', the firm's executive transition program, which provides developmental coaching to C-level executives stepping into new roles and taking on new challenges.

Steve has a keen interest in how businesses anticipate and deliver customer expectations and he was accredited with Chartered Marketer status back in the early 2000s. He remains fascinated by evolving business and investment models around co-creation and client-centricity.

Matt McKenna

Partner,
Debt Advisory Services

Matt has more than 15 years of experience with investment banking, project finance, corporate lending and advisory services.

As a Partner in the Debt Advisory Services division of KPMG, Matt has worked on a number of successful transactions within the Australian corporate and infrastructure markets across mergers and acquisitions, debt arranging and financing, and capital structure advisory. He works with key advisory clients that include major Australian superannuation funds, private equity companies, listed corporates and government organisations.

Prior to joining KPMG, Matt was a key member of the team at RBC Capital Markets that established the Asia-Pacific Global Investment Banking, Infrastructure group.

Amanda Price

Head of KPMG
High Growth Ventures

At the forefront of the nascent Australian startup world back in the 2000s in a number of senior sales, marketing and business development roles, Amanda was appointed CEO of AirWORKS Media in 2003, before relocating to Los Angeles to become EYE Corp's Vice President of Business Development, Partner Relations and Operations.

Amanda founded Ausemerge in 2010 representing Australian-based ventures into the US.

'I have worked with over 80 high growth technology-enabled companies to accelerate their entry into the US, providing access to in-market expertise and an established network of Australian and US entrepreneurs, investors, advisers and potential customers.'

Along with Advance, Amanda developed the elevate accelerator and ran it for three years before joining KPMG as the Head of High Growth Ventures in late 2016.

Craig Davis

Financial Risk Analytics
and Head of Regtech

Craig Davis is a Partner in KPMG's Risk Consulting practice with responsibilities relating to risk and regtech, he leads the sector and business, coordinating and/or running related engagements in this field. In addition, Craig is the lead for the KPMG Risk-as-a-Service solution and through this participates in global competency teams.

Craig has extensive experience in both traded and non-traded risk management regulations and practices, and the independent development and validation of risk models. This has been gained through his time in consultancy, with APRA and in various industry roles within Australia, the UK and Europe.

Craig joined KPMG from APRA where he was a member of the Balance Sheet and Market Risk Oversight team, responsible for the review of traded and non-traded market risk management at a range of financial institutions. Prior to this he held senior market risk roles at major institutions in Australia and the UK with involvement in trading oversight, systems implementation and regulatory requirements.

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