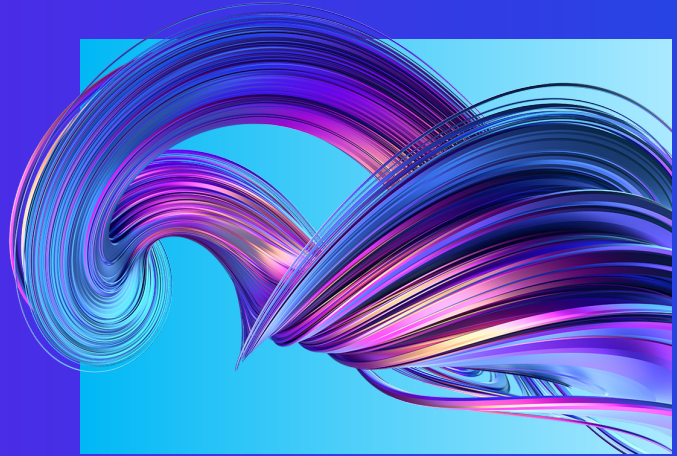




Pulse of Fintech H1/24

Country Insights Germany



Negative trend halted, investments in fintechs stabilise at low level

While the global fintech market continues its downward spiral, the German market is showing initial signs of recovery compared to H2/23. Despite the global decline, investments in Germany seem to have plateaued at a low level. Venture capital investments especially grew in H1/24 compared to H2/23, rising by more than 20%. In comparison to the global market and the EMEA region, the German market focused particularly heavily on fintechs linked to artificial intelligence (AI).

Key takeaways

1

Escalating geopolitical tensions and high costs of capital led to slow growth in the global fintech sector. This trend is affecting Germany too. Nonetheless, the German fintech ecosystem again saw several promising investments, especially from the corporate venture capital segment.

2

The top deals in H1/24 focused especially on credit card specialists and customised embedded finance solutions for companies and platforms. These deals indicate that investors consider these business models as less risky.

3

The difficult macroeconomic environment weighed notably on larger fintechs with high capital requirements, such as N26. In contrast, it was especially young fintechs in seed and early-stage financing rounds that managed to obtain fresh capital from investors in H1/24.

Difficult macroeconomic environment: Fintechs as a positive market driver in Germany

Despite global challenges, the German fintech market in H1/24 recorded 51 deals and an investment volume of USD 482.06 million, which represented positive development compared to H2/23. In comparison with other European countries, fintechs on the German market collected more capital than fintechs in France (41 deals, USD 241.80 million), though significantly less than fintechs in the UK (198 deals, USD 7,344.28 million).

However, compared to the investment volume in H2/23 (USD 403.72 million), investments in fintechs on the German market grew by 19%, while investments declined in France (-50%) and the UK (-29%). Although total investment volume on the German market in Q2/24 (USD 263.82 million) was 50% higher than in Q2/23, the number of deals and the total investment volume was below

Total investment in fintechs (VC, PE and M&A) in Germany from 2021 to 2024



Source: KPMG International, 2024

the 101 deals and USD 641.78 million from H1/23. The German fintech market in H1/24 performed modestly compared to H1/23, with investors often being held back by numerous challenges. The persistently high inflation since 2022 and increased interest rates continued to fuel uncertainty and a downward trend in the valuation of larger fintechs such as N26.

Seed and early-stage investments in focus

From H2/23 to H1/24 there was a 21% increase in venture capital investments, which rose to USD 461.63 million amid a focus on early-stage investments, including for embedded finance providers. The majority of the total 37 deals in H1/24 were realised in Q1/24. In Q2/24, the number of deals fell by approx. 50%. However, the investment volume in the same period grew by 12% to USD 243.39 million. This put venture capital investment volume in Q2/24 108% higher than the figure for Q2/23. Corporate venture capital (CVC) in H1/24 established itself as one of the main actors on the German VC market, partly through the financing round for credit card specialists. The level of CVC investments stabilised following the increase in H2/23 indicating a continuation of the trend of corporates or traditional financial service providers that cooperate with fintechs. Compared to H1/23 there was an 81% increase in CVC investment volume, which rose to nearly USD 300 million. Thereby, CVC investment volume in Germany grew at a higher rate than in the EMEA region (USD 2.23 billion in H1/24, -19% on H1/23) and globally (USD 8.5 billion in H1/24, -55% on H1/23), although the number of completed deals fell by 18%.

AI acting as driver for German fintechs

The decline of investments in crypto fintechs from H2/23 continued despite the recent (partial) enactment of the Markets in Crypto-Assets Regulation (MiCAR). Although fintechs related

VC activities in Germany from 2014 to 2024



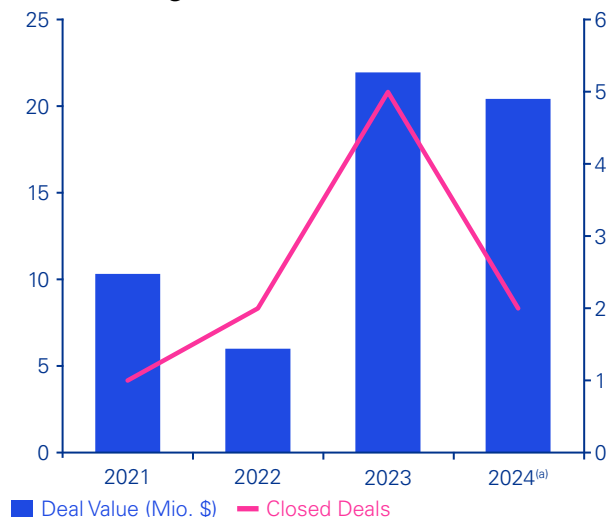
Regulations are creating an environment for fintechs to develop further. The recently adopted EU AI Act is a good example.

These new requirements are creating more clarity and transparency for the use of AI systems. This could provide significant opportunities for fintechs with an AI focus, although it may also cause investments in the unregulated markets to be postponed.



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National PE growth from 2021 to 2024



Note: (a) Exclusively Q1 and Q2 2024

Source: KPMG International, 2024

to cryptocurrencies/blockchain still represent an important investment subsection (595 global deals in H1/24), only three deals in Germany were completed in H1/24. The focal points in Germany in this period were fintechs related to artificial intelligence (AI), B2B payment solutions or Software as a Service (SaaS). Investments in fintechs linked to AI stuck out with eight deals, attracting the majority of the investment volume.

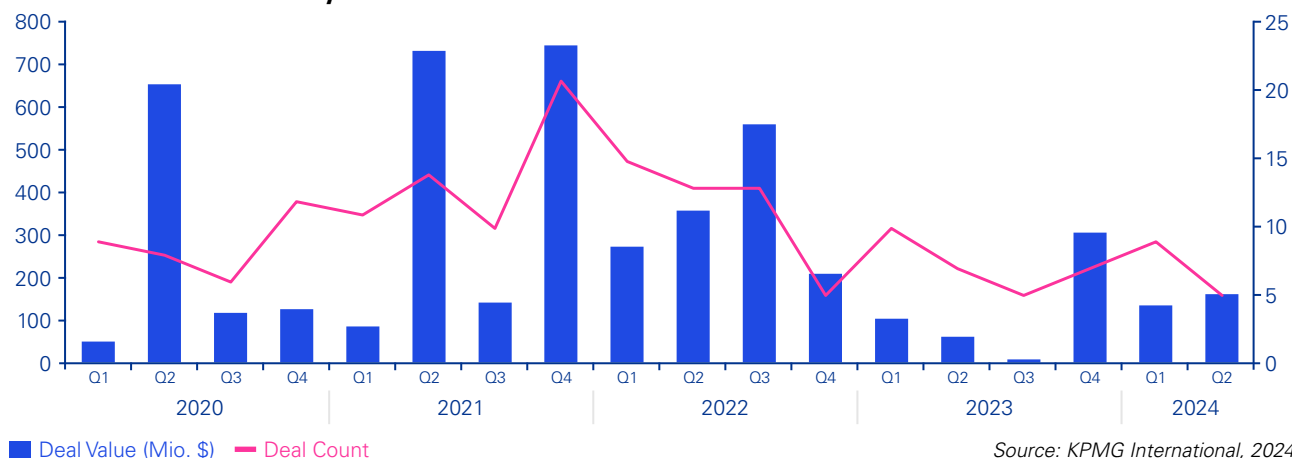
The focus on fintechs linked to AI is characteristic for Germany compared to the rest of the EMEA region following the global trend on AI initiatives (306 deals in H1/24).

This contrasts with the EMEA region, where especially fintechs offering SaaS (214 deals in H1/24) and fintechs linked to cryptocurrencies/blockchain (194 deals in H1/24) dominated the financing rounds ahead of AI (78 deals in H1/24). The recently adopted EU AI Act could provide a further trigger for fintechs linked to AI in Germany.



You can get a detailed explanation of the data basis and the terms used here from the overarching study, Pulse of Fintech H1/24.

CVC activities in Germany from 2020 to 2024



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