



Pulse of Fintech H2 2019

February 2020



Welcome message

Welcome to the 2019 end-of-year edition of KPMG's Pulse of Fintech — a biannual report highlighting key trends and activities within the fintech market globally and in key jurisdictions around the world.

After a massive year of investment in 2018, total global fintech investment remained high in 2019 with over \$135.7 billion invested globally across M&A, PE and VC deals. While the total number of fintech deals declined, the fintech market saw median VC deal sizes grow in most jurisdictions around the world as maturing fintechs attracted larger funding rounds. Fintech-focused M&A activity was also very strong, propelled by a record-shattering quarterly high of \$66.85 billion in M&A investment in Q3'19.

The Americas and Europe both saw strong levels of fintech investment during 2019. In Asia, total annual fintech investment dropped compared to 2018's massive peak high. However, on a quarterly basis it remained quite steady compared to all but the massive outlier quarter that was Q2'18. All jurisdictions saw a decline in their fintech deal volume during 2019 — a fact that reflects the growing maturity of fintech companies and the increasing focus of investors on late-stage and follow-on deals.

Payments, including digital banking, remained the hottest area of fintech investment globally, with a significant amount of focus on mature startups working to expand geographically or to grow their product breadth. Both proptech and insurtech investments were also quite strong in 2019, while regtech saw a record number of deals despite a decline in total investment. At a technology level, cybersecurity-focused fintech companies grew substantially on the radar of investors, while blockchain continued to attract a significant amount of attention.

Despite the ongoing US-China trade tension and geopolitical uncertainty in a number of key jurisdictions, the outlook for 2020 is quite positive for fintech investment globally. The payments space is only expected to heat up with larger deals as more fintechs look to scale. Corporate investment is also expected to remain high as traditional companies look to improve their customer-experience and embrace innovation within their operations and product offerings.

We discuss these trends and a range of other topics in this edition of Pulse of Fintech, in addition to delving into a few key questions including:

- How is the Internet of Things (IoT) creating opportunities for fintechs and financial institutions?
- Why are big techs and financial institutions forming strategic alliances and what does it mean for competition?

We hope you find this edition of Pulse of Fintech insightful and informative. If you would like to discuss any of the information contained in this report in more detail, contact a KPMG advisor in your area.

KPMG Fintech professionals include partners and staff in over 50 fintech hubs around the world, working closely with financial institutions, digital banks and fintech companies to help them understand the signals of change, identify the growth opportunities, and develop and execute their strategic plans.

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Global Co-Leader of Fintech,
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All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

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- Fintech investment in 2019 remained strong with \$59.8 billion across 1,144 deals
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- Fintech companies received \$12.9 billion across 547 deals in 2019
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- M&A activity in fintech soared to new annual high of \$4.1 billion
- India see surge of over \$3.7 billion in investments driven by mature fintechs

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In 2019, global investment in fintech companies hit

\$135.7B

with

2,693 deals



Another massive year for global fintech investment, led by record Q3'19

Global fintech investment in 2019 fell just shy of 2018 results, with \$135.7 billion invested across 2,693 deals. Despite the slight drop, fintech investment remained more than double every year prior to 2018, highlighting the enormous strength of the global fintech market. Two deals drove a significant proportion of this investment: the \$42.5 billion acquisition of Worldpay by Fidelity National Information Services (FIS) and the \$22 billion acquisition of First Data by Fiserv.

M&A activity globally highlighting increasingly competitive fintech environment

With the exception of India-based Paytm's \$1.7 billion funding round, the largest fintech deals in 2019 were focused on M&A, with fintech-focused M&A setting a new annual record of \$97.3 billion. The largest M&A deals of the year occurred across several countries. In addition to the UK (Worldpay) and US (First Data, Dun & Bradstreet and Assurance IQ), other countries that saw large M&A deals this year include Estonia (AliExchange), France (eFront), Australia (Property Exchange Australia) and Italy (SIA (Milan)).

Americas and Europe set new records for fintech funding; Asia holds steady

Both the Americas and Europe set new records for fintech investment in 2019, with the Americas accounting for over \$64.2 billion and Europe accounting for \$58.1 billion — although more than half of Europe's investment came from the single Worldpay transaction. While Asia saw a decline in fintech investment year over year, results were quite steady compared to historical norms outside of the outlier Q2'18.

Cybersecurity becoming a hot topic for fintechs

Fintech-focused cybersecurity investment continued to grow in 2019, driven by the increasing importance of cybersecurity to both traditional financial institutions and fintechs. Part of this relates to the move towards open banking, particularly in the UK and Europe. With data flows opening between different institutions, the ability to protect the data in transit or in the cloud is critical, not to mention protect it within institutions that are not regulated in the same way as financial institutions.

Another driver of cybersecurity investment over the past year has been the need for more effective and customer-centric access controls. Financial institutions are beginning to recognize the importance of providing an exceptional client experience. As a result, they are beginning to rethink their cumbersome identity management processes. This drives investment in fintechs offering innovative access management solutions, including biometrics and behavioral analytics. In some jurisdictions, like Europe, the focus on Know Your Customer (KYC) and Customer Due Diligence (CDD) is widening to include advanced data management, analytics, and interpretation in order to drive more efficient regulatory compliance procedures and address cybersecurity issues.

Regtech sees new record of deals despite drop in total investment

The number of global regtech deals rose to a new high in 2019, despite a drop in total regtech investment. This reflects an increasing interest in regtech with relatively modest deal sizes given it is still a maturing area of fintech.

The increasing focus on regtech over the past couple of years has been partly driven by the implementation of General Data Protection Regulation (GDPR) and the second Payment Services Directive (PSD2) in Europe and, more recently, by the California Consumer Privacy Act (CCPA). The full impact of these regulations has yet to be truly understood, however, with the CCPA coming into force in 2020 and the deadline for e-commerce card-based transactions in the EU to comply with PSD2's strong customer authentication requirement extended to 31 December, 2020.

Looking forward to 2020, a number of elements will continue to drive interest and investment in regtech, including more focus on consumer protection and data security, the enrichment of the regulatory landscape in different jurisdictions, digital transformation within financial institutions, and the success stories of regtechs as they begin to scale and grow.

Another massive year for global fintech investment, led by record Q3'19 (cont'd)

Insurtech investment takes a breather

The number of global insurtech deals dropped more than 40 percent year over year as global investors focused on making a smaller number of high quality insurtech deals. Despite the large decline in deals volume, global investment in insurtech dipped only 13 percent between 2018 and 2019, in part due to the \$3.5 billion acquisition of US-based Assurance IQ by Prudential Financial in October. Insurtech also attracted a significant amount of capital from the VC market, including several \$100 million+ megadeals, such as Root Insurance (\$350 million), Next Insurance (\$250 million), and Hippo Insurance (\$100 million) in the second half of the year.

Over 2019, investors in insurtech focused significantly on later-stage companies, a reflection of the larger trend of VC investors focusing on safer bets and proven companies. Partnership models are also growing in the insurtech space. For example, UK based Wrisk is working with RAC to trial a mileage-based care insurance product. As AI solutions become more mature and prevalent, there will likely be an upswing in investments in similar models of on-demand insurance. Regulators globally are working to understand the full ramifications of fintech, although a real regulatory leader in the space has yet to emerge.

Heading into 2020, traditional insurers will likely increase their focus on how to work best with fintechs in order to achieve value. There will also be increasing investments in companies able to help insurers deal with big challenges, such as cybersecurity and regtech, or data analytics and data mining. As data analytics becomes more robust, investments in solutions focused on enhancing life insurance products could also increase. On-demand insurance is also well positioned for investment growth, particularly in the small business space to address the needs of independent and gig economy workers.

Proptech sees another strong year of investment

Proptech, which broadly includes innovative technology solutions focused on real estate asset and property management, experienced another banner year in 2019, with \$2.6 billion of global investment.

Over the past year, there are more real estate firms globally focusing on identifying innovation and proptech opportunities and incorporating digital solutions within their primary business processes. Data and data management was a major focus for proptech investment during 2019 given that data is essential for improving efficiencies and for making even better strategic decisions. AI and automation were also key areas of investor interest as it relates to monitoring and optimizing assets. In a number of jurisdictions, proptech is used as a mechanism to address sustainability issues and better manage the carbon footprint of an asset.

More real estate and property management companies are expected to embrace proptech. This will likely start with companies defining their digital strategy and roadmap, and figuring out the best mechanisms to collect and manage their data. It also requires a cultural change within the organizations and significant investment in competences and capabilities of new and existing employees. Over time, investment in proptech will likely continue to grow as traditional real estate market players begin realizing the value associated with such solutions.

“We’re going to see incumbents around the world seriously re-consider their technology stacks and how future-proof they are. This is going to include looking at their core banking and origination systems in the context of their overall strategy so that they can readily compete — with digital banks and emerging partnerships involving big techs and other scale providers.”



Ian Pollari
Global Co-Leader of Fintech
KPMG International

Another massive year for global fintech investment, led by record Q3'19 (cont'd)

Wealthtech continues to find traction with investors

In 2019, wealthtech continued to be a growing area of interest for fintech investors around the world. The year saw an evolution in funding, with many wealthtech investors focusing less on early stage companies with interesting ideas and more on those companies in their portfolios looking for follow-on investments. Data management and analysis was a key focus for investment this year, with companies looking for more effective ways to assess and report on real-time data.

The shifting needs of customers has driven the focus of wealthtech investment. Financial advisors put increasing pressure on asset managers to create very specific products and investment solutions focused on the needs of niche groups of clients such as customers interested in making sustainable investments.

Number of blockchain deals drop significantly from 2018 high; investment still significant

Despite a drop in deals volume, blockchain continued to be a hot topic in most regions of the world. Facebook's announcement of its Libra cryptocurrency raised a significant amount of discussion in June. The Libra announcement followed an announcement of a digital coin for payments by JPMorgan in February. The People's Bank of China's announcement of accelerated research and experimentation on digital currency and electronic payments have helped breathe new life into the space.

Blockchain interest was not limited to coin announcements. Late in 2019, blockchain-based cryptocurrency trading platform AliExchange was acquired by FoPay for \$2.1 billion. Distributed ledger technologies related to the improvement of business processes also started to mature in areas like supply chain management and trade financing.

Blockchain continues to hold significant transformative potential. As it matures, its applicability will widen, with applicability ranging broadly from shelf-life management of goods to audit processes and regulatory reporting. Given this potential, investment in the blockchain space is expected to remain robust well into 2020.

Trends to watch globally

Fintech investment is well-positioned to grow in 2020, particularly with the growing proliferation of fintech hubs globally, not to mention the ever-widening scope of fintech offerings. While the payments space is expected to remain very hot, other areas of fintech are also expected to grow including B2B-focused solutions and AI-driven solutions.

"Many of the digital banks in the UK and Europe have international aspirations. They're looking to other markets in order to scale and grow. As they move outside the UK, they're followed by a number of European infrastructure providers — core banking platform providers looking to provide software-as-a-service models in those same jurisdictions. It's an exciting time for growth in fintech."



Anton Ruddenklau
Global Co-Leader of Fintech
KPMG International



Top 10 predictions for 2020

The global fintech ecosystem continued to mature over the course of 2019. With major developments on the horizon, such as the increasing focus on open data opportunities, more regulatory clarity in a number of jurisdictions, growing involvement of big techs in fintech, and the ongoing evolution of technologies like AI and blockchain, 2020 promises to be another big year for fintech.

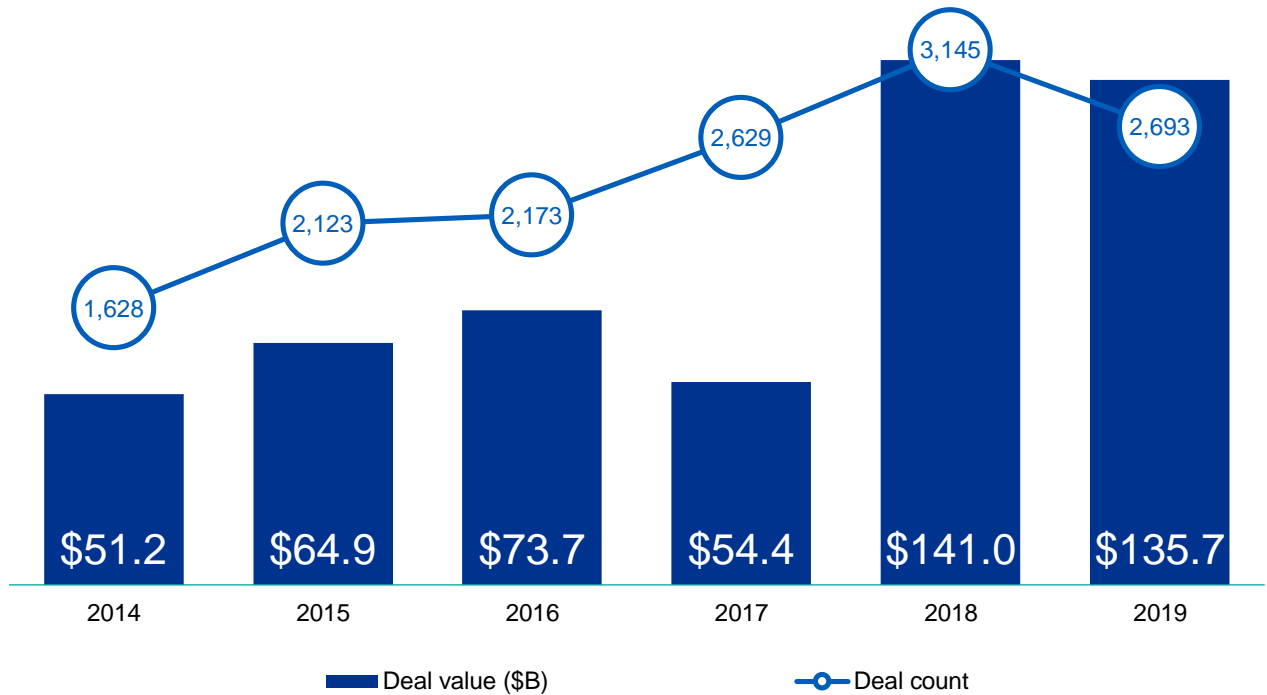
Here are our top 10 predictions for 2020:

- 1 Bigger, bolder deals:** Deal sizes will continue to grow as investors focus on late-stage fintechs. Frothy, speculative deals will be increasingly replaced by high-conviction deals focused on companies with proven business models and paths to profitability or access to capabilities in adjacent areas of interest.
- 2 Product expansion:** Maturing fintechs and challenger banks will continue to expand the breadth of their service offerings beyond their initial niche focus areas into adjacencies, e.g. energy, telco, etc.
- 3 Deals occurring in diverse locations:** Fintech deals will increasingly be seen in jurisdictions outside of traditional fintech markets, such as in Southeast Asia, Latin America and Africa.
- 4 Rise of Big Tech:** The Big Tech giants like Alibaba, Alphabet, Apple and Tencent will increase their focus on the fintech space, working to increase their reach into developing markets — whether directly or by forging fintech investments or through strategic alliances — to increase the value and seamless integration of their ecosystems to their customers.
- 5 Digital banking licenses:** Following the lead of Hong Kong (SAR), Australia and Singapore, more countries in the Asia Pacific region will develop digital banking regimes and use digital banking licenses to stimulate competition and deliver services to under-served/un-served segments of the population.
- 6 The hunted start hunting:** Mature fintechs will increasingly make their own investments in other emerging fintechs as they seek to augment their capabilities, get access to talent more quickly (acqui-hire) and grow in new markets
- 7 Partnerships:** The use of partnerships will continue to accelerate between big tech players and fintechs, traditional corporates and fintechs, and fintechs with each other. Partnerships will be highly customer-focused and geared toward creating more value and getting to dominate scale more quickly.
- 8 Open banking to open finance:** The focus on open data opportunities will move beyond banking and into other aspects of the financial services industry, as well as solving common pain points in other sectors, e.g. energy, telco, etc.
- 9 Re-bundling of financial services:** The unbundling of financial products will begin to reverse course as consumers increasingly seek a solution to increasingly complex and fragmented digital lives, preferring a trusted platform to orchestrate their financial affairs.
- 10 Cybersecurity and digital identity management:** Cybersecurity-focused fintechs will become more attractive as traditional financial institutions shift from building to buying cyber solutions, particularly in areas like fraud, security, and identity management.



Another blockbuster year

Total investment activity (VC, PE and M&A) in fintech 2014–2019

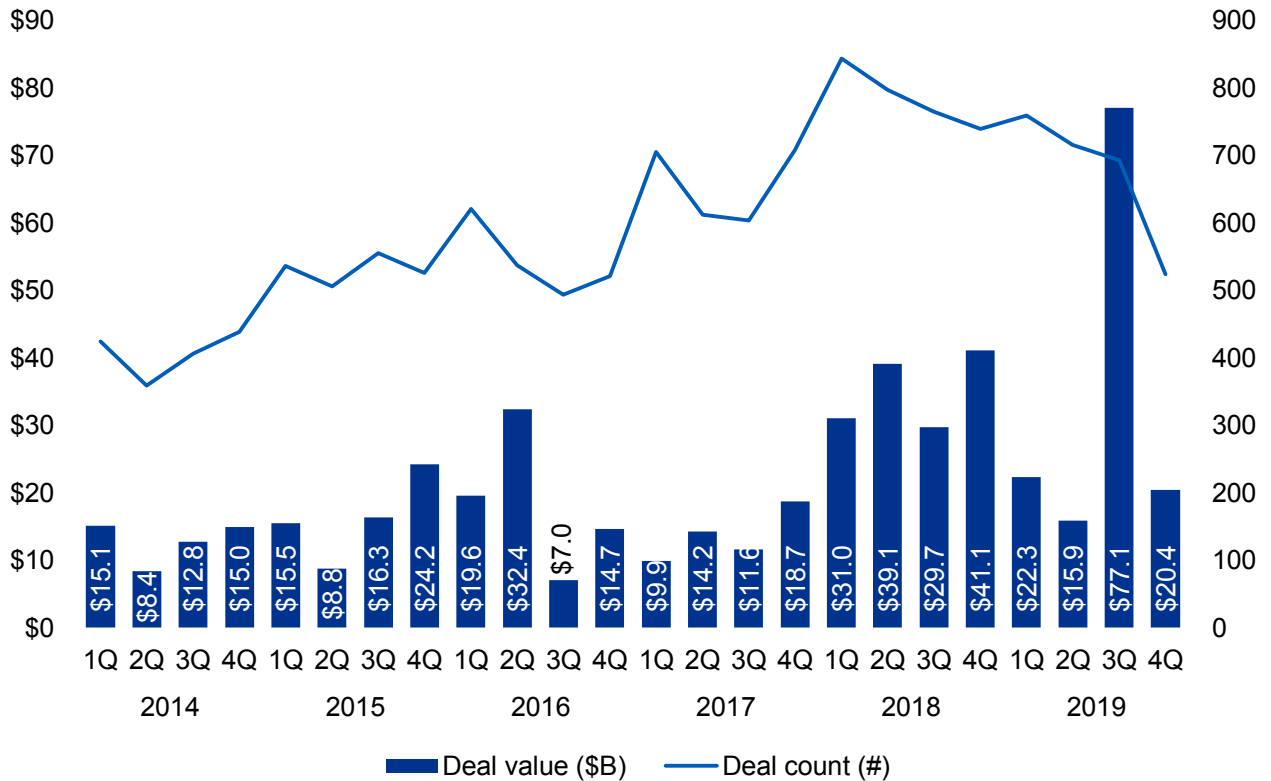


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019. Note: refer to the Methodology section at the end of the document to understand any possible data discrepancies between this edition and previous editions of The Pulse of Fintech.

After a slower start, 2019 rallied to post one of the most lucrative years on record for fintech. Volume declined moderately year over year, but mega-deals still helped contribute to no less than \$135.7 billion invested. The maturation of key fintech segments has become a primary theme across the ecosystem; consequent consolidation and M&A by financial giants interested in acquiring innovative products and services — and in some cases talents — is helping prop up these significant sums.

Volume moderates

Total investment activity (VC, PE and M&A) in fintech 2014–Q4 2019

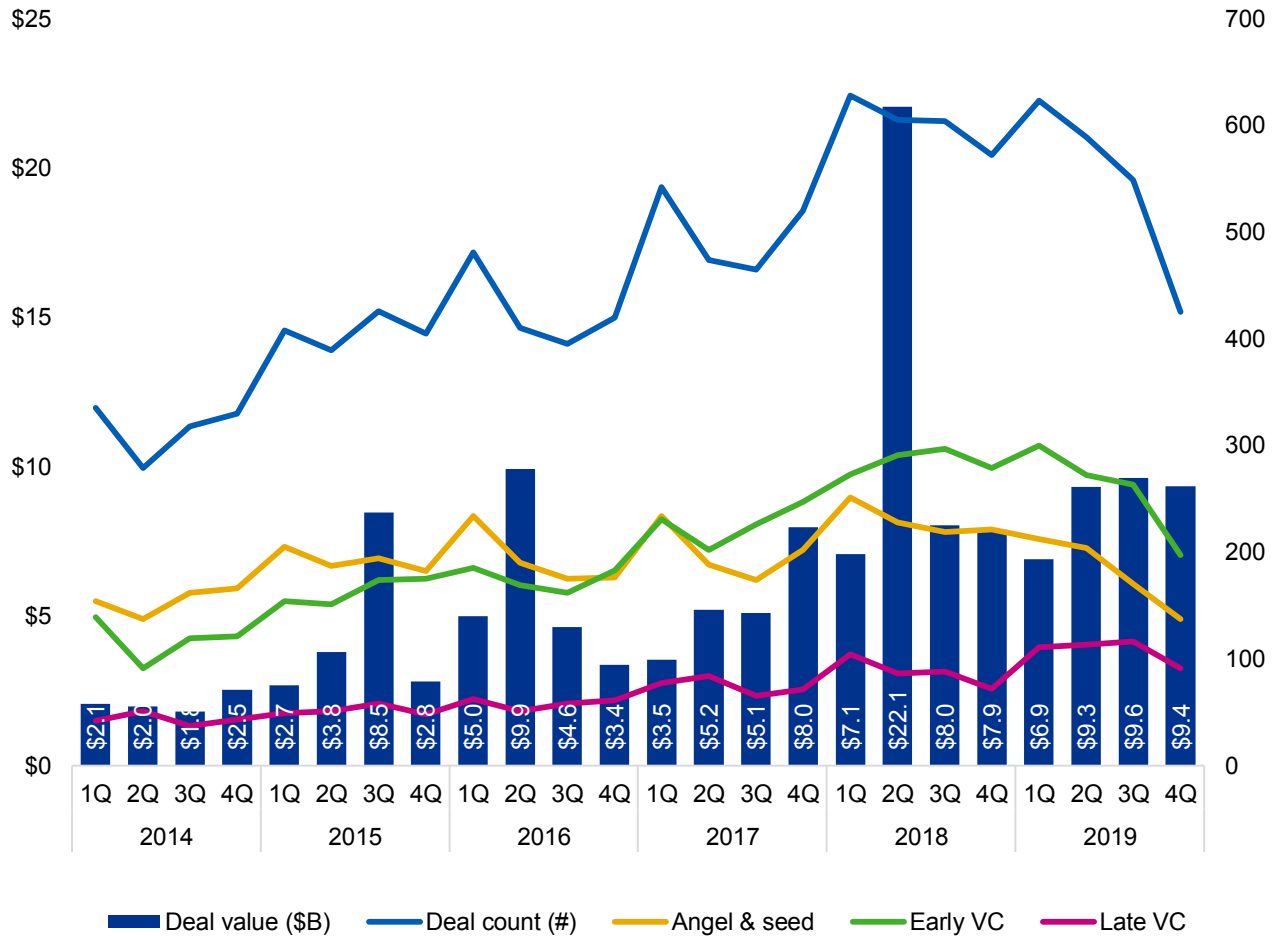


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Q3 2019 saw a record sum for total fintech deal value across private market transactions, clocking in a mammoth \$77.1 billion. A huge portion of that was due to the \$42.5 billion acquisition of Worldpay in July 2019 by Fidelity National Information Services (FIS), of course, but it also speaks to the robustness of deal flow throughout 2019 overall, although 2018 still boasts the next two record quarters. The fact volume moderated is primarily due to a slide in the tally of completed venture financings.

Early-stage activity slides slightly

Global venture activity in fintech 2014–Q4 2019

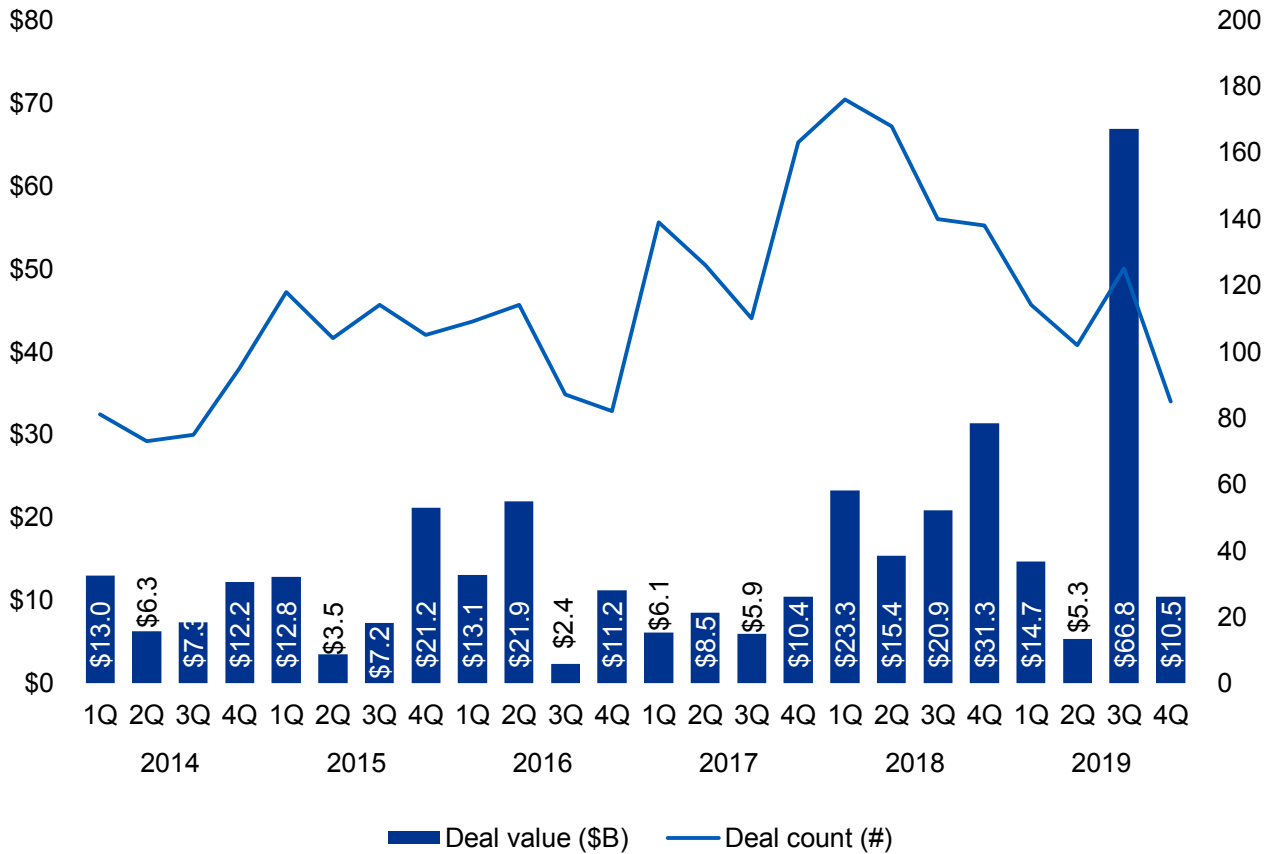


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Throughout 2019, overall venture volume slid steadily downward to more normal historical tallies, culminating in a steeper plunge in the final quarter of last year. Given private market data lags, that final quarter's volume of transactions will likely not be quite as steep as initially registered above, but the decline, even if moderate, is still occurring primarily at the earliest stages. This is likely a cyclical phenomenon, as valuations and round sizes rise to inflated levels and investors eventually pull back at the riskiest stages of the capital stack.

2019 sees record quarter in M&A value

Global M&A activity in fintech 2014–Q4 2019

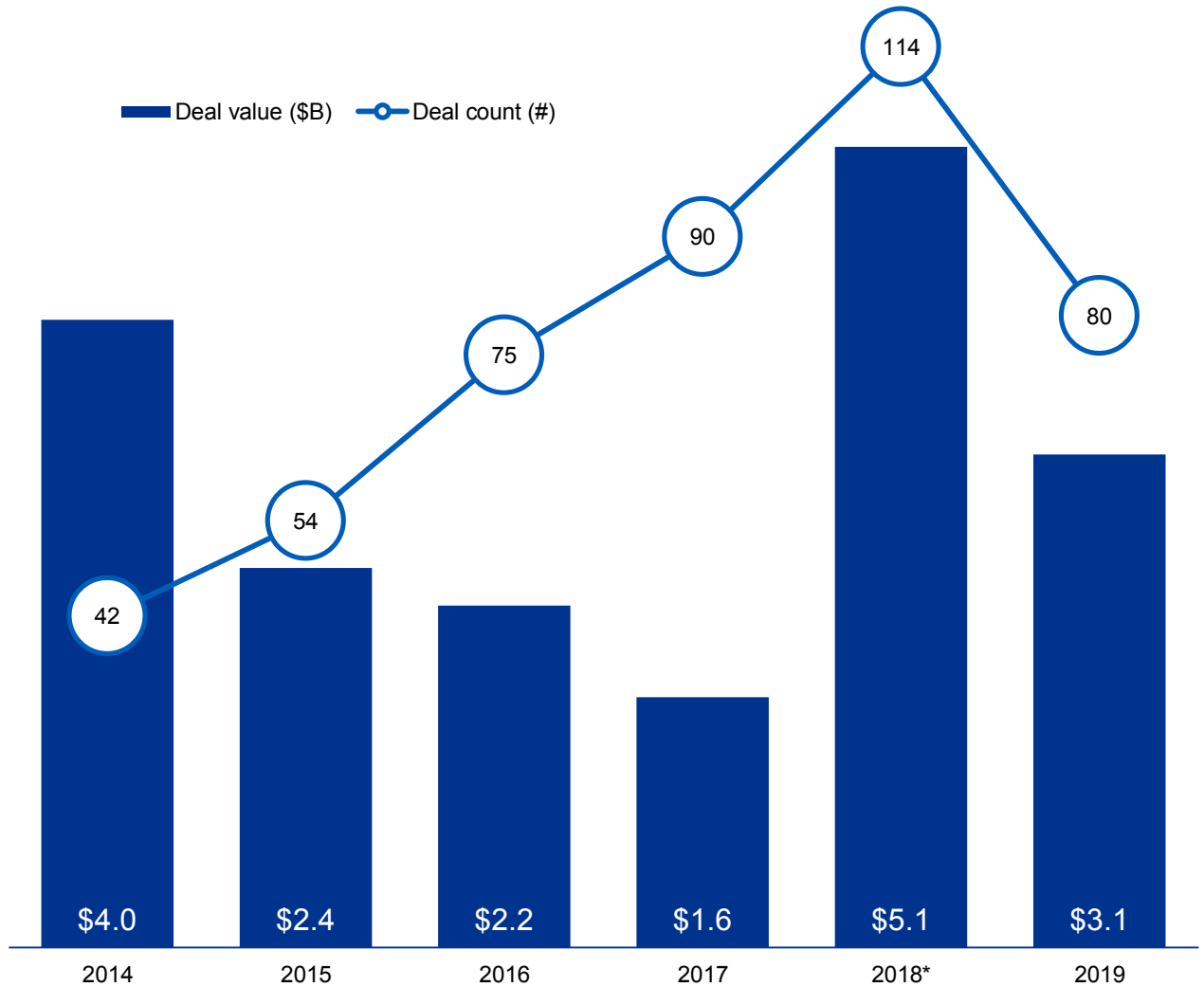


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

The third quarter of 2019 marked what could be a high-water mark for consolidation in key fintech segments, such as payments. After a peak in volume in early 2018, the pace of M&A has moderated to historical averages, but as some segments reach significant maturity, mega-deals occur as the final players in the space combine.

PE firms are still engaging in fintech

Global PE growth investment activity in fintech 2014–2019

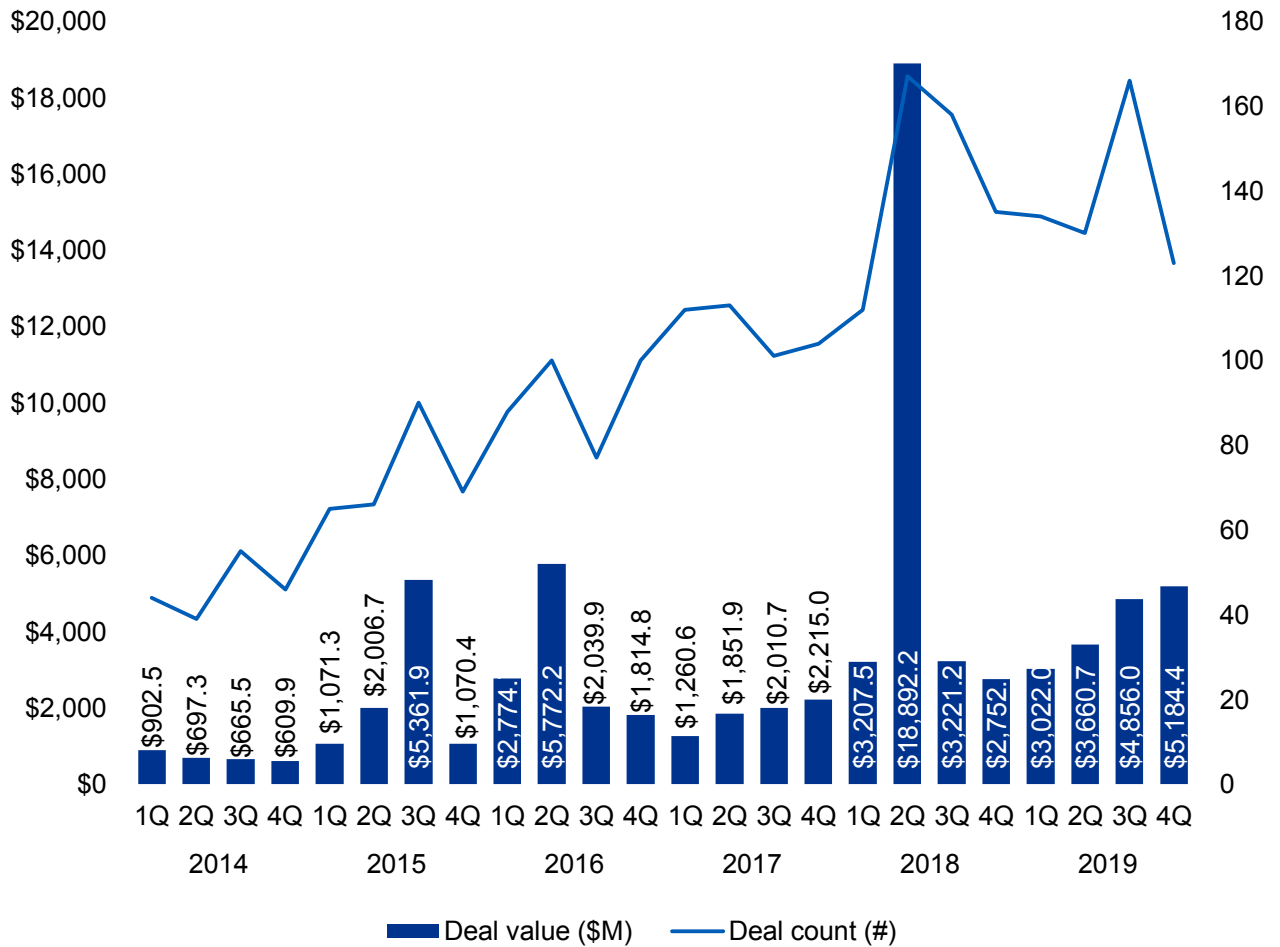


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Throughout the past 5 years, PE firms have grown increasingly engaged in fintech, peaking at no fewer than 114 transactions for over \$5 billion in total deal value in 2018. Although 2019 saw a downturn in volume, it is still quite high relative to historical volumes. This surge is part of PE’s broader push into technology, software in particular, but PE firms with experienced financial services teams are also getting active.

Corporates stay active in a volatile fashion

Global venture capital activity in fintech with corporate participation 2014–Q4 2019

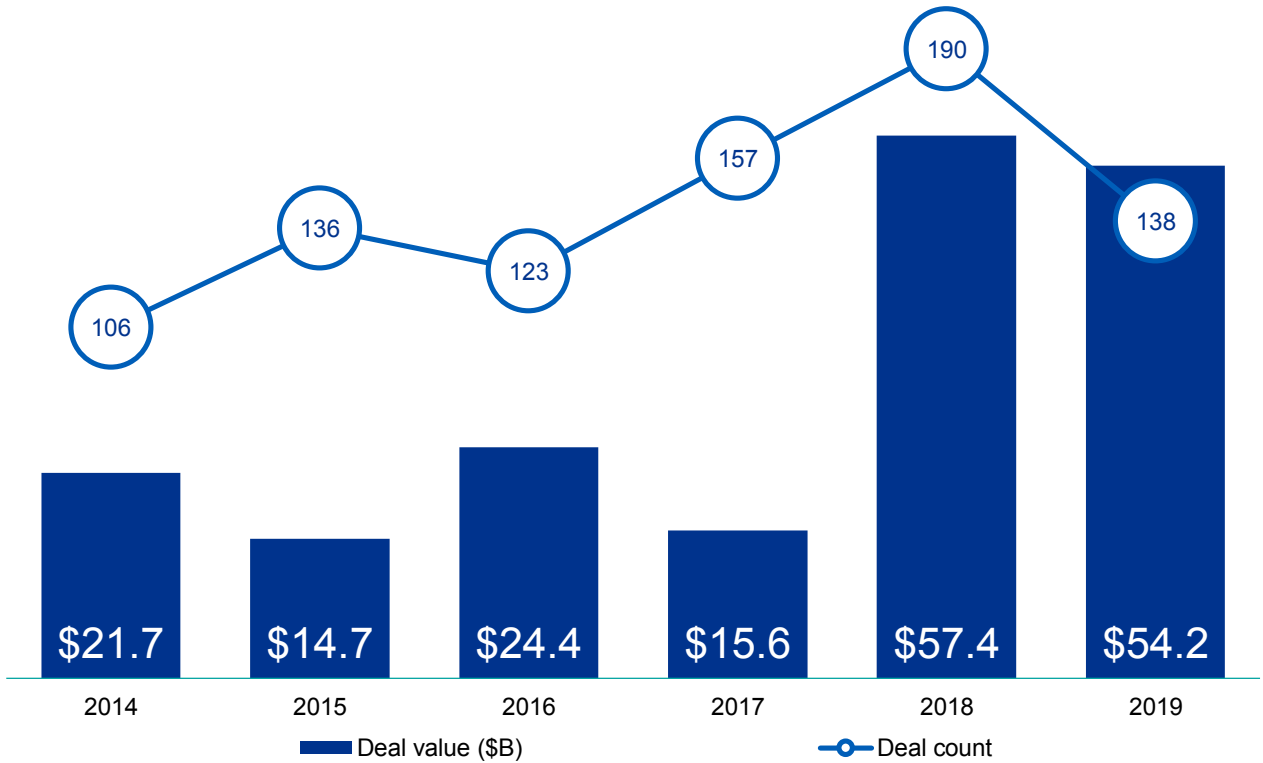


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Especially within fintech, the role of corporate investors and their venture arms is more pronounced across the global landscape than in many other sectors, primarily due to fintech’s unique properties and business opportunities within legacy financial services. The back half of 2019 saw an uptick in the aggregate deal value in which CVCs participated, although tallies of deal volume shifted sharply. Given the number of players in the space, activity will likely remain volatile going forward.

A record year for cross-border deal value

Global cross-border M&A activity in fintech 2014–2019

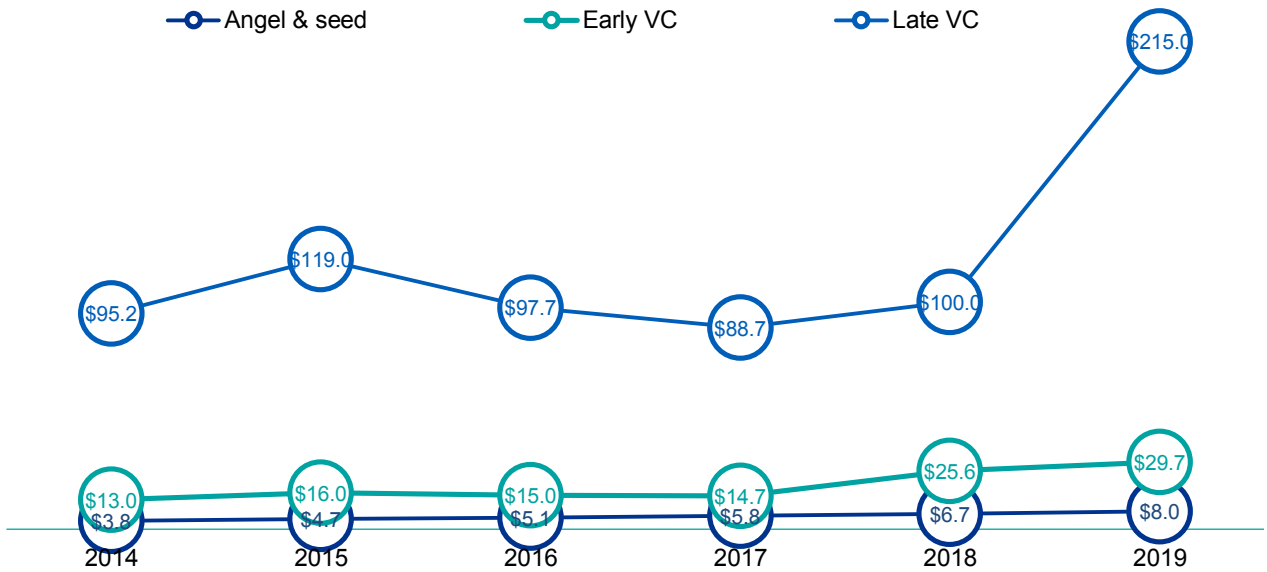


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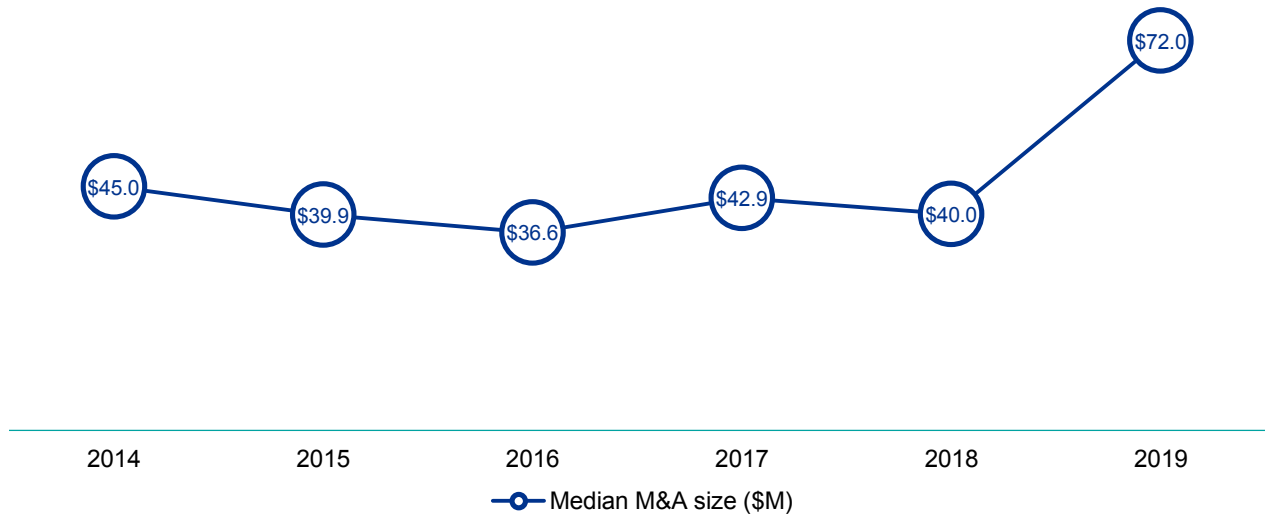
2018 was an outlier year for consolidation and cross-border activity in general, and fintech was no exception. However, 2019 just barely missed it by just a tad by recording a truly gargantuan \$54.2 billion in aggregate cross-border deal value thanks to mega-deals, even as volume slid below the levels observed in 2017 and 2018. Volatile political environments certainly haven't helped in easing complex cross-border negotiations and increasingly uncertain regulatory environments, which is likely the primary cause of the decline.

Highs for VC, and all-time for M&A

Global median venture pre-money valuations (\$M) by stage in fintech 2014–2019



Global median M&A (\$M) size in fintech 2014–2019



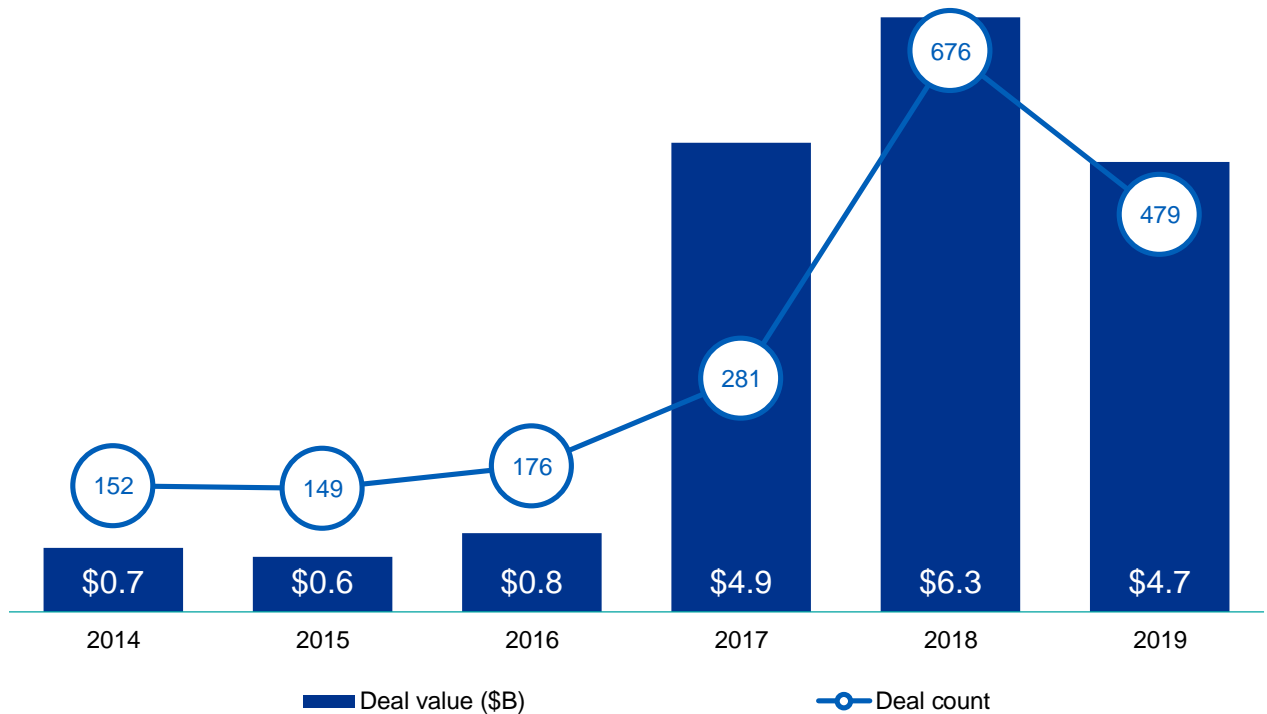
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Blockchain remains a cryptic environment

Global private investment (VC, PE and M&A) in blockchain & cryptocurrency 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

2018 saw more private investments by count within the blockchain and cryptocurrency space than ever before. Last year started off slow but ultimately ended up with one mega-transaction boosting aggregate deal value. It also saw overall activity recover to the second-highest level observed this decade. The blockchain and cryptocurrency space is still nascent to the degree that commercialization potential and technical and regulatory hurdles are being tackled by multiple startups, helping boost overall volume. It remains to be seen how widely adopted the technology ultimately becomes, but investment is likely to remain robust going forward in pursuit of that goal and its ultimate efficacy.

“Blockchain continues to be a key investment area, and we’re really starting to see large corporates and governments get in on the action. One of the biggest blockchain announcements this year was the Chinese central bank’s announcement of the digital renminbi — a fully collateralized, blockchain-powered digital token. Over the next year or two, other countries, particularly in emerging markets, will likely also look at issuing their own digital currencies.”

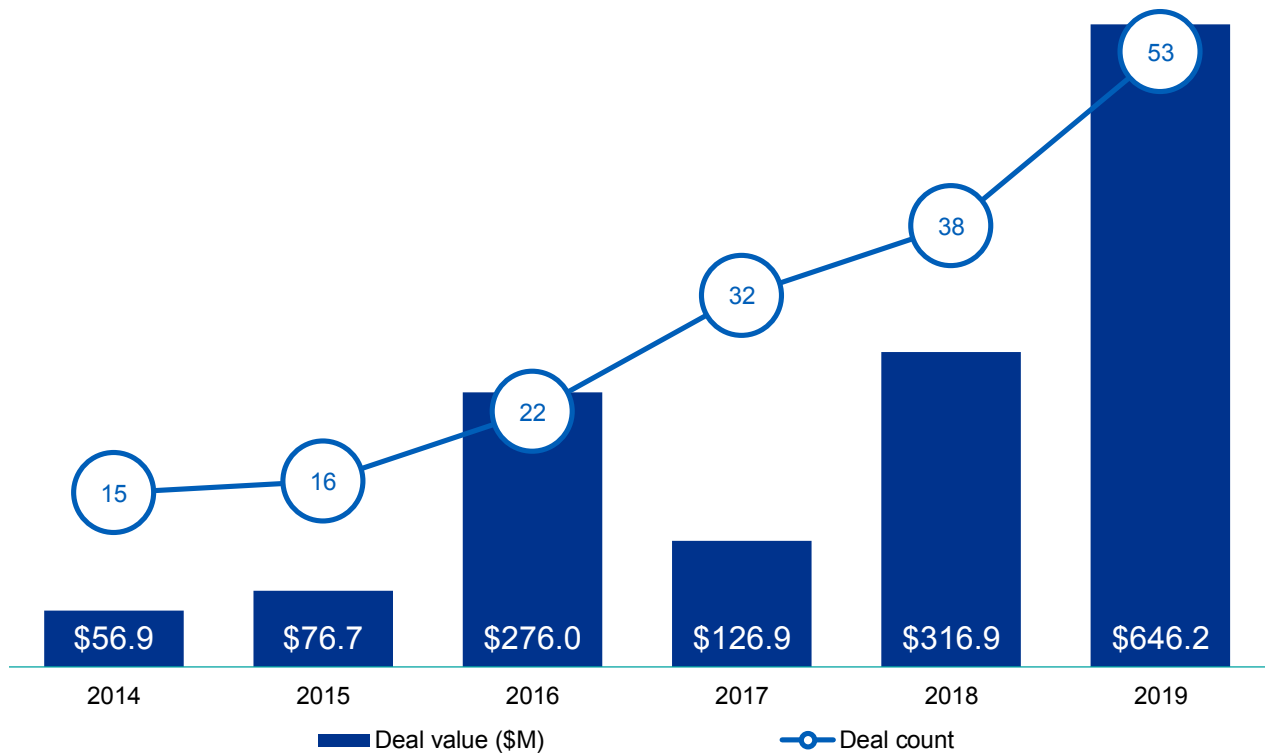


Laszlo Peter
Head of Blockchain Services, Asia Pacific,
KPMG Australia

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Security boasts a banner year

Global private investment (VC, PE and M&A) in fintech: cybersecurity 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Although not nearly as active as other fintech segments, cybersecurity had a record year with well over \$600 million invested across multiple transaction types, plus a peak of 53 transactions. Pure-play solutions are not common enough that the field attracts plenty of dealmakers, but given the niche’s clear and growing importance as threats grow more sophisticated, it is likely to keep attracting consistent investor and acquisitive interest heading into 2020. Acquirers can also avoid systemic risk by buying and then implementing their own bespoke solutions, rather than being exposed to a widely used tool.

“Traditionally, financial institutions, particularly the large banks, rolled out niche or customized cybersecurity technologies on their own that don’t integrate with one another. Now, we’re starting to see a big shift in mindset whereby the banks and other institutions are buying product licenses and focusing more on integrating them together. They are leveraging tools that are out in the market related to fraud, security and identity management versus building it all themselves.”

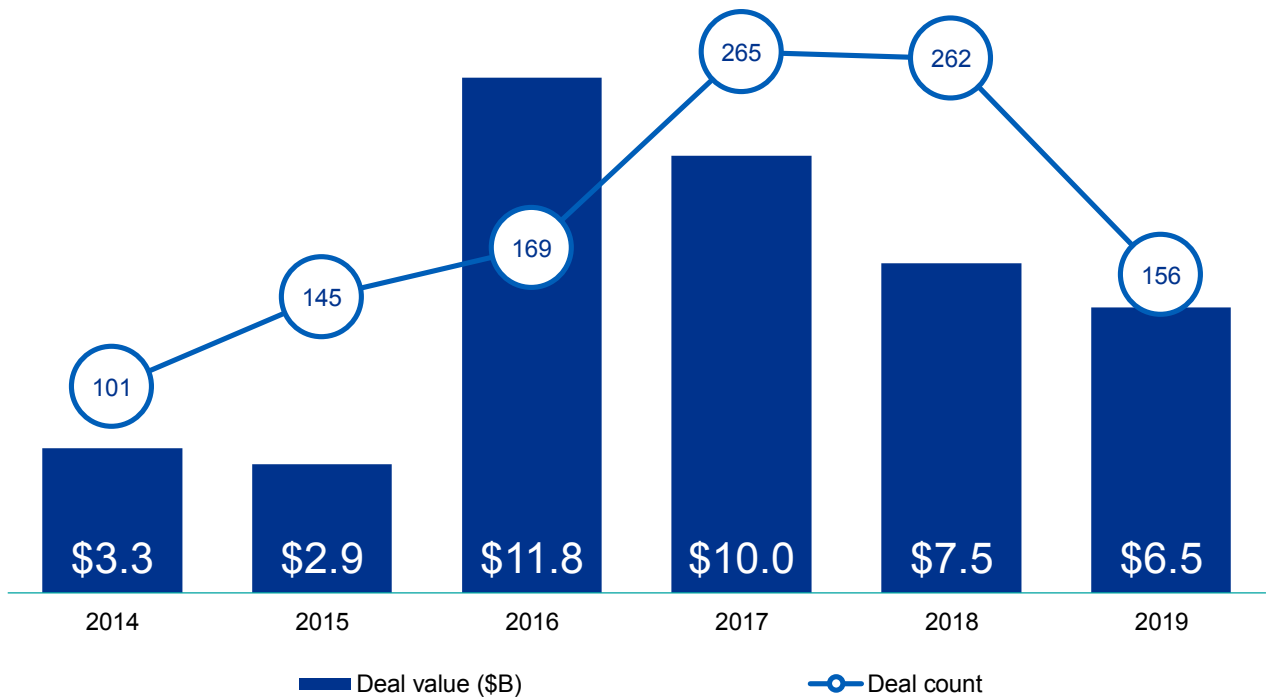


Charles Jacco
Principal, Information Protection and Cyber Security, Finance Services Leader,
KPMG in the US

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Insurtech takes a breather

Global private investment (VC, PE and M&A) in insurtech 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

The insurtech space has matured, and thus a diminution in transactional volume is to be expected as early-stage funding dies down and M&A bidders focus on establishing category leaders in particular niches. However, aggregate deal value stayed robust thanks to mega-deals — again another sign of a maturing segment. It’ll be interesting to see if volume stays steady throughout 2020, more in line with historical totals, as opposed to the peaks of 2017 and 2018, given the degree of consolidation and market capture in the space.

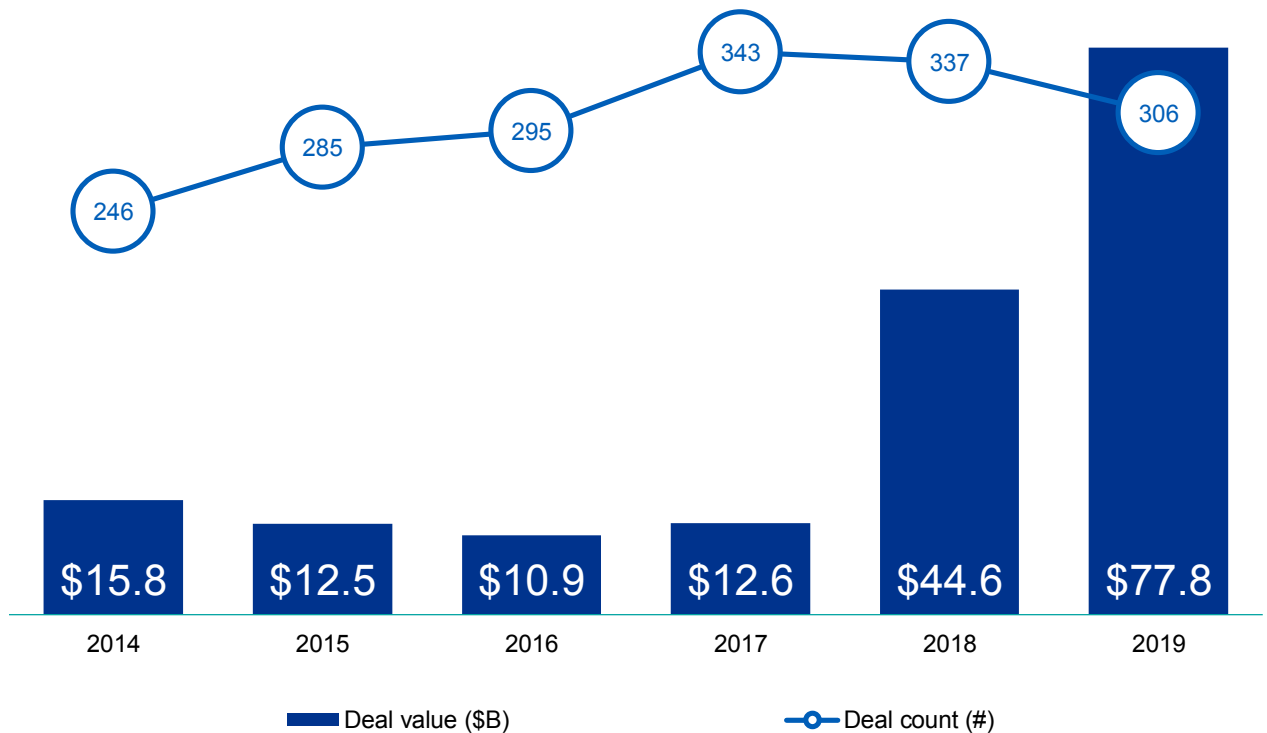
“Larger carriers completed multiple proof of concepts and have seen the capabilities that exist in insurtech, and now realize that these solutions will have a large impact on their future. They’re starting to partner with them, acquire them, do joint ventures with them, and incorporate them into their businesses. This is leading to significant growth within the insurtech sector. Over 2020, we’re going to start to see a maturing of insurtechs, from small departmental solutions into larger enterprise solutions.”



Gary Plotkin
Global Insurtech Leader, KPMG International
Principal, Insurance Management Consulting Leader, KPMG in the US

Payments consolidation reaches a peak?

Global private investment (VC, PE and M&A) in payments 2014–2019

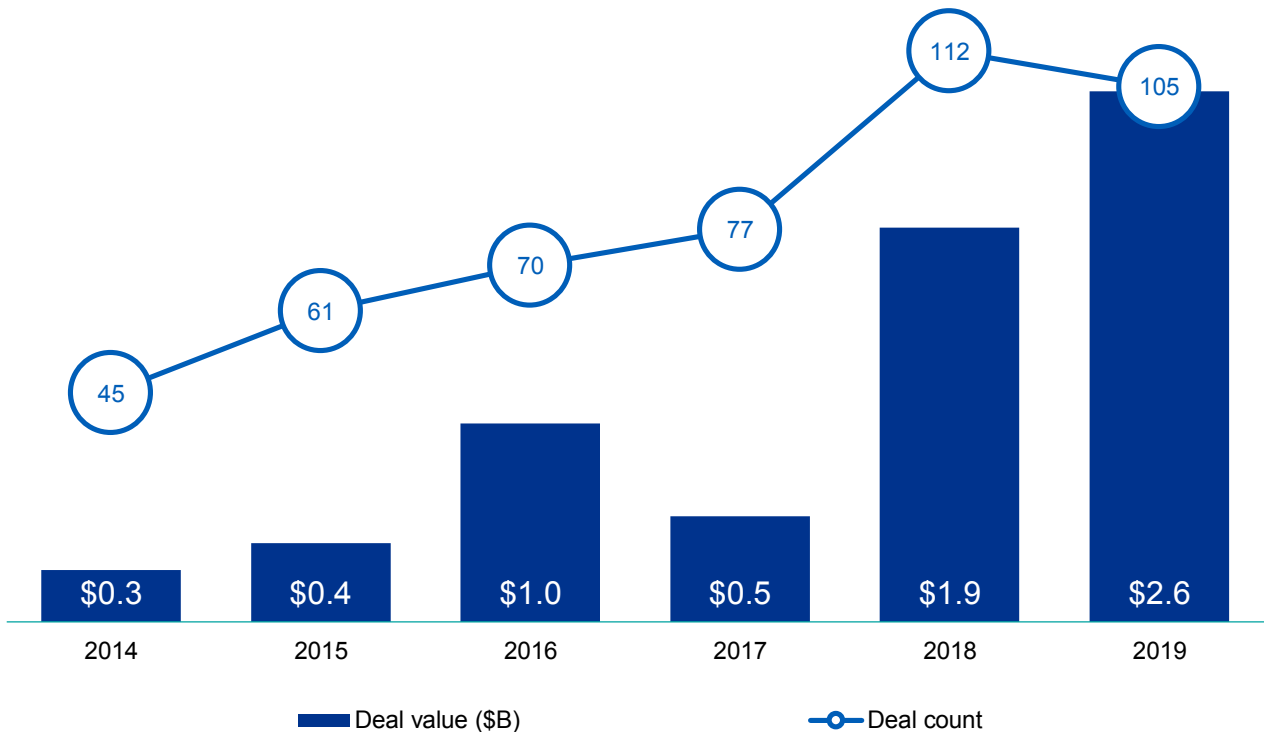


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

2018 and 2019 have now seen what may be record years for both investment in and consolidation across the payments space, on a global scale. Although volume slid by a slight margin, the aggregate deal values across the past two years are truly staggering. Such spending signals immense pressure to consolidate payments offerings across not only consumer but also B2B segments, as incumbents and tech giants alike seek to offer the best consumer and business payment options across mobile and enterprise scales in particular. What's difficult to assess is if this degree of consolidation will continue going forward, as much of the best-positioned M&A has occurred already.

Another banner year for proptech

Global private investment (VC, PE and M&A) in proptech 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Proptech as a sub-segment of fintech heated up over the past 2 years, seeing considerable investment paired with some acquirers’ interest. Although 2019 was slightly down from 2018, given its robust tallies relative to historical figures, it is clear that the fintech aspects of real estate are increasingly explored by founders and financiers as another potential arena to transform with digitization.

“The real estate industry is by its nature quite a traditional industry but it faces a number of challenges. As the sector is quite data-rich and is open to exploring digital opportunities, this makes it particularly well-suited for leveraging digital and innovative property technologies as a means to address their myriad of challenges such as using space more efficiently, improving tenant experience and satisfaction and managing the carbon footprint of their assets. As the industry continues to build its awareness of the value of proptech over the next year, investment will likely grow considerably in both investment in innovative (new) solutions but also in required new competencies and capabilities within the teams (e.g. data scientists).”

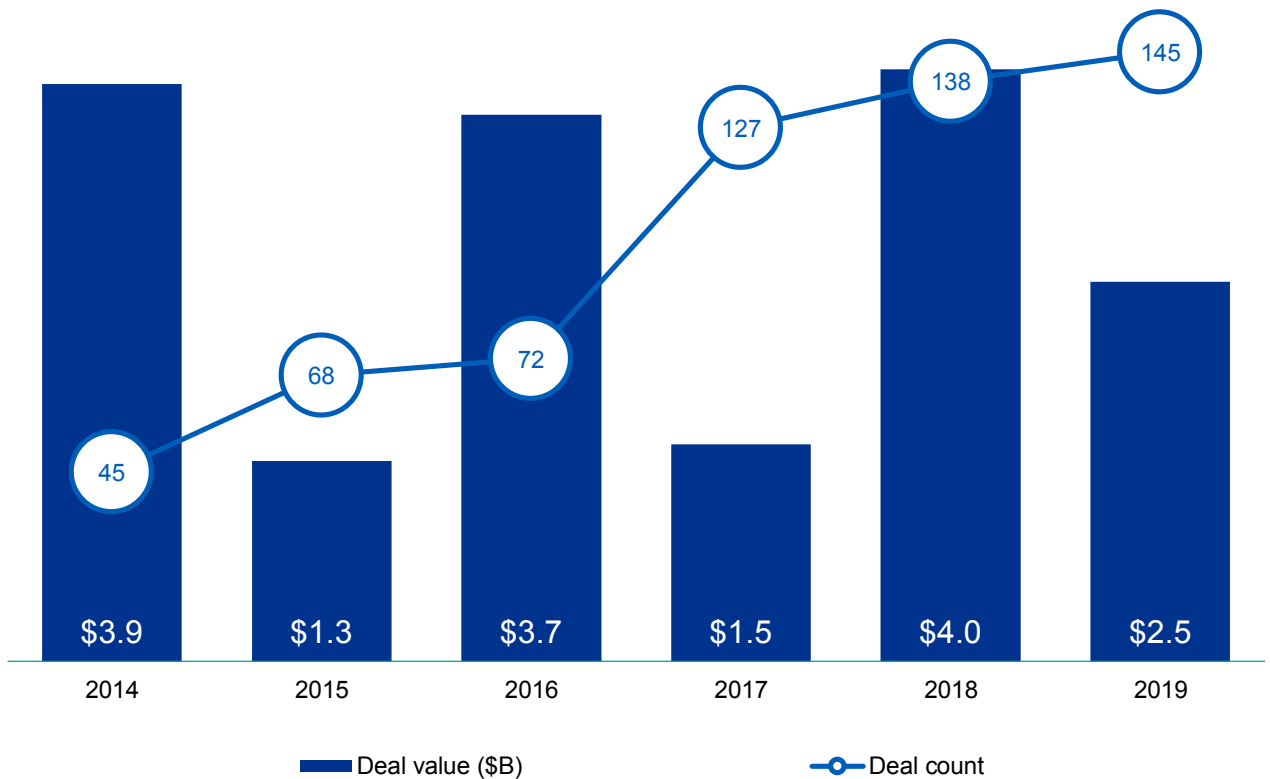


Sander Grunewald
Global Real Estate Advisory Leader,
KPMG International

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Activity stays consistently high in regtech

Global private investment (VC, PE and M&A) in regtech 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Regtech is an intriguing arena, given pure-play solutions are not abounding as investment or acquisition targets. However, benefiting somewhat from the macro drivers spurring the rise of investment in cybersecurity in fintech, regtech has seen remarkably steady activity at an elevated level in the past 3 years, although deal value can remain quite variable. The increasingly complexifying regulatory landscape across developed markets spurs further interest in automation of compliance, risk monitoring and more.

“There is not a one-size-fits-all solution for regtech in the market at present. Because of this, a number of traditional financial institutions drive innovation by investing internally in machine learning, AI and other digital technologies. This is especially the case for financial institutions’ efforts to elevate the customer experience, to strengthen risk management, such as credit risk modelling, credit monitoring systems, fraud detection and prevention, and to improve financial forecasting, such as financial modeling, ALM, pricing and P&L evaluation.”

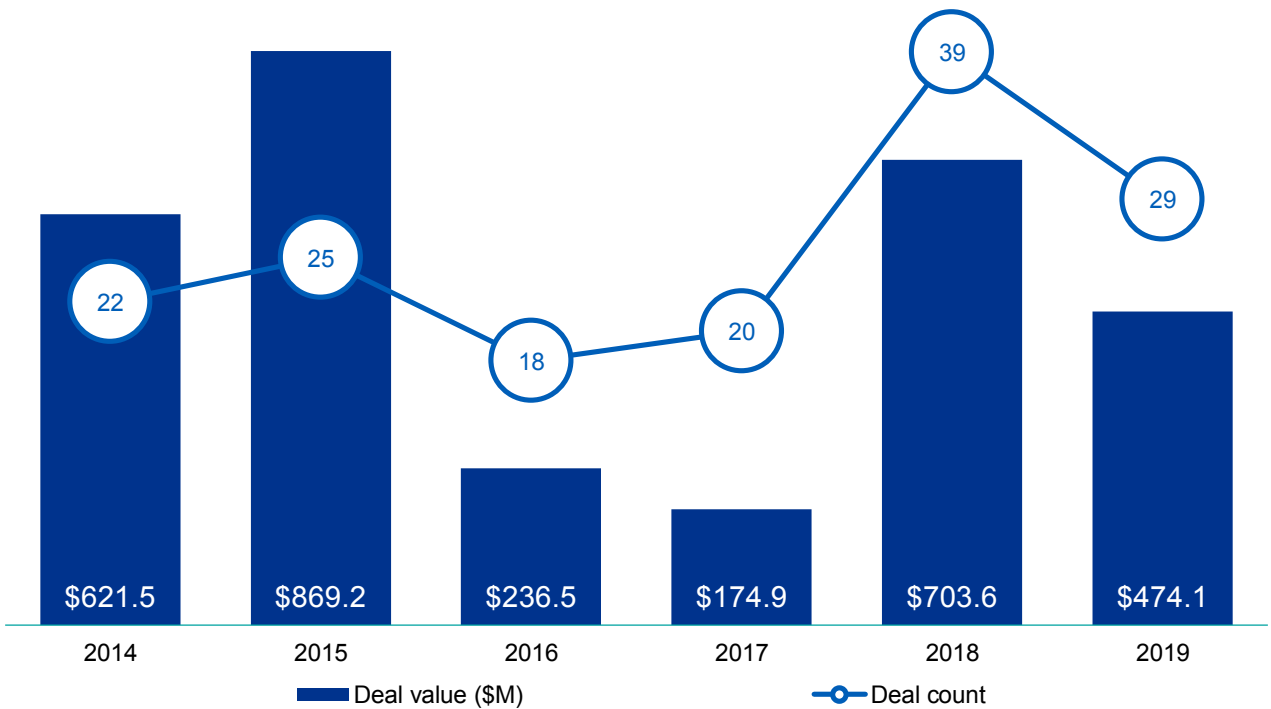


Fabiano Gobbo
Global Head of Regtech,
KPMG International

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Wealthtech stays high in deal count

Global private investment (VC, PE and M&A) in wealthtech 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Wealthtech is not quite as active as other fintech sub-segments given heavy competition from established incumbents focused on servicing high-net-worth individuals and family offices. That said, with shifting demographics, higher expectations and changes in consumer tastes driving a focus on better user interfaces and seamless desktop-to-mobile experiences, more investors are backing wealthtech-focused enterprises and acquiring startups to gain those capabilities.

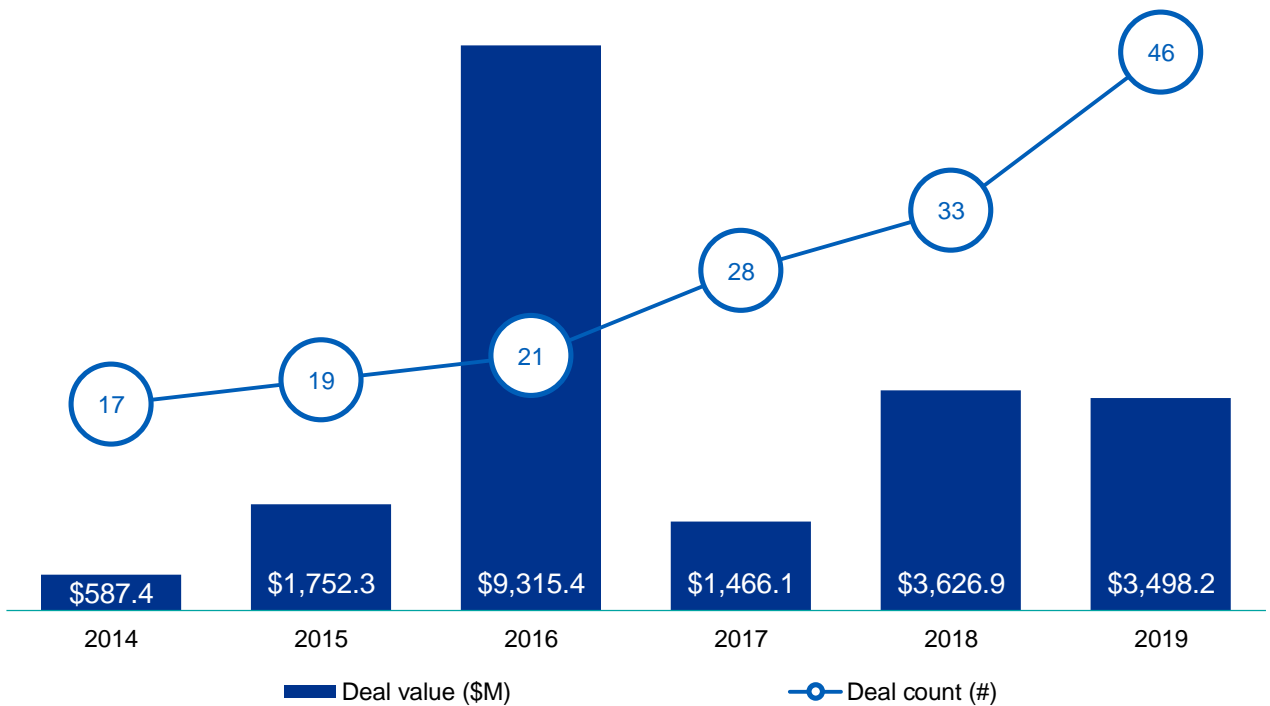
“A few years ago there was more focus on making early stage investments in wealthtech companies with interesting and experimental ideas. Over the last year, we’ve seen wealthtech investors really doubling down on their existing investments. While they’ve been quite particular about the valuation of their follow-on money, they’ve largely been focused on supporting their existing investments rather than turning them over.”



Bill Packman
Wealth and Asset Management Consulting Lead and Partner,
KPMG in the UK

Tech giants grow increasingly active in fintech

Global private investment (VC and M&A) in fintech by tech giants* 2014–2019

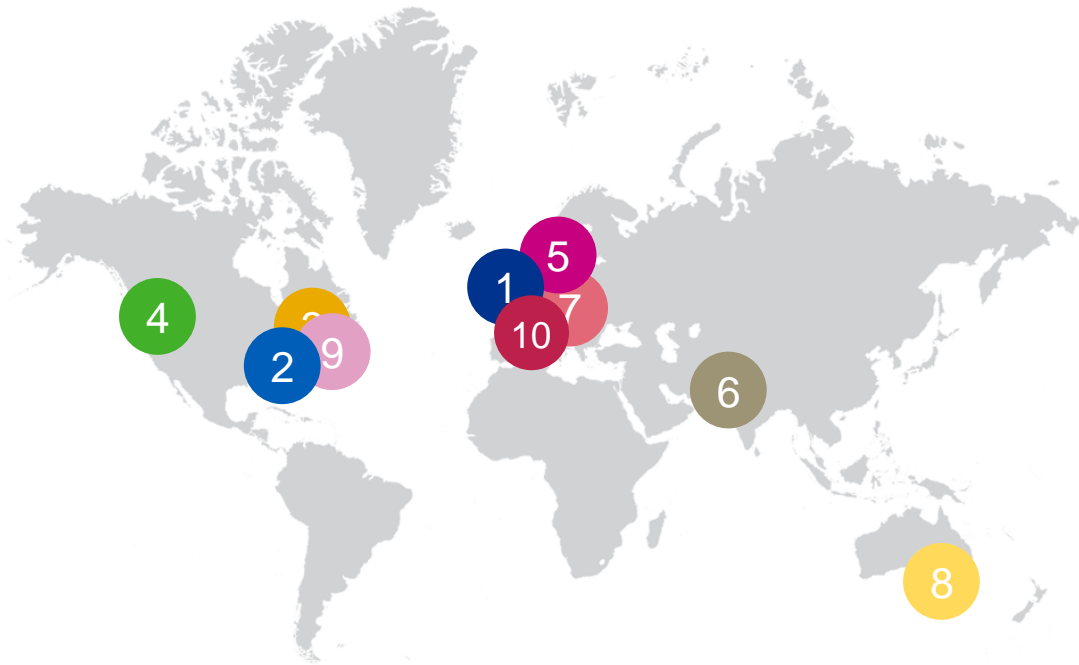


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.
 *Note: This ranking includes affiliates of said tech companies.

Firm	# of deals
Alphabet	65
Tencent Holdings	49
Alibaba Group	22
Microsoft	14
Global Tech Giant	8
Baidu	7
IBM	3
Apple	1

Brand new to this edition of Pulse of Fintech, the acquisitional and investment activity of tech giants is charted out above. Tellingly, these tech giants have grown increasingly active in the fintech space across the board in the past few years, shelling out considerable sums in 2018 and 2019 in particular. The driver for such exposure and added capabilities is clear: As fintech segments mature, these tech giants are exploring it as a new potential business line or bolstering extant capabilities.

Top 10 global fintech VC, PE and M&A deals in 2019



- | | |
|---|---|
| <p>1 Worldpay — \$42.5B, London, UK
Payments/transactions
<i>M&A</i></p> | <p>6 Paytm — \$1.7B, Noida, India
Payments/transactions
<i>Series G</i></p> |
| <p>2 First Data — \$22B, Atlanta, US
Institutional/B2B
<i>M&A</i></p> | <p>7 eFront (France) — \$1.3B, Paris, France
Institutional/B2B
<i>Buyout</i></p> |
| <p>3 Dun & Bradstreet — \$6.9B, Short Hills, US
Institutional/B2B
<i>Buyout</i></p> | <p>8 Property Exchange Australia — \$1.2B, Melbourne, Australia
Proptech
<i>M&A</i></p> |
| <p>4 Assurance IQ — \$3.5B, Bellevue, US
Insurtech
<i>M&A</i></p> | <p>9 Investment Technology Group — \$1B, New York, US
Capital markets
<i>M&A</i></p> |
| <p>5 AliExchange — \$2.1B, Tallinn, Estonia
Capital markets/cryptocurrency
<i>M&A</i></p> | <p>10 SIA (Milan) — \$894.8M, Milan, Italy
Institutional/B2B
<i>Buyout</i></p> |

Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

In 2019, fintech investment in the Americas reached

\$64.2B

across

1,337 deals



Fintech investment in the Americas remains strong

Investor interest and investment in fintech continued to grow across the Americas during 2019, with Latin America in particular seeing significant growth. The proliferation of fintech ecosystems across the Americas is a reflection of the strong opportunities in the sector, whether in traditional payments and lending or in other areas like blockchain, insurtech, regtech or proptech.

The very definition of fintech continued to evolve across the Americas and around the world throughout 2019, with lines blurring significantly between verticals and sectors.

Americas almost on par with 2018 investment record

Despite a drop in the number of fintech deals in the Americas compared to the high seen in 2018, total fintech investment in the region reached \$64.2 billion in 2019, down only slightly from \$65.5 billion in 2018. The second half of the year included \$29.7 billion in fintech funding during Q3'19, followed by a more modest Q4'19.

The US continued to drive the vast majority of fintech funding in the Americas during 2019, led by the \$22 billion acquisition of First Data by Fiserv, however, Canada and Latin America showed some strength. The early year acquisition of Calgary-based Solium by Morgan Stanley (rebranded Shareworks by Morgan Stanley) for \$821.5 million¹ and Advent International's buyout of a number of banks' stakes in Prisma Medios de Pago for \$725 million in Argentina were the sixth and seventh largest deals of the year in the Americas².

Geographic and vertical diversity helping propel US fintech market

The vast geographic diversity of fintech investments across the US helped bolster the US fintech market in 2019. Of the largest deals in the country, only SoFi (\$500 million Series H funding round) and Chime (\$500 million Series E funding round) occurred in and around Silicon Valley. Only one deal (Germany-based Deutsche Boerse's acquisition of Axioma for \$850 million) occurred in New York. Other \$500 million+ fintech deals occurred in numerous states across the US, including Georgia, New Jersey, Washington State, Texas, Virginia, Pennsylvania, Michigan and Florida.

The diversity of fintech investments in the US also showed in the different verticals able to attract significant funding rounds. In addition to more traditional payments and lending companies like Mission Lane and SoFi, Insurtech Assurance IQ, risk management software company Axioma, financial markets technology firm Investment Technology Group, financial performance management company Onestream Software, B2B payments company CSI Enterprises, and financial planning platform company PIEtech all attracted large deals over the course of the year.

Brazil sets record for annual fintech investment

Latin America continued to heat up in terms of fintech investment, with Brazil in particular attracting several large deals over the course of the year to help it set both a record quarterly high in Q3'19 (\$416.2 million) and a new annual record high of \$860.9 million in fintech funding. The vast majority of fintech investment in Brazil focused on the digital bank and payments spaces. Q4'19 was particularly hot for VC investment in fintech in Brazil, with big deals by VTEX (\$140 million) and Neon (\$94 million). EBANX also had an undisclosed deal, making the company Brazil's second fintech unicorn after Nubank.

While Brazil saw the most fintech deal activity in Latin America during 2019, other countries also saw some significant deals. For example, Advent International's buyout of Argentina-based Prisma Medios de Pago for \$725 million was Latin America's largest fintech deal of the year. Konfio, a small business lender based in Mexico, also raised \$100 million in Q4'19.

¹ <https://www.morganstanley.com/press-releases/morgan-stanley-completes-acquisition-of-solium.html>

² <https://www.bloomberg.com/news/articles/2019-01-22/advent-buys-stake-in-argentine-visa-operator-for-725-million>

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Fintech investment in the Americas remains strong (cont'd)

Fintech market in Canada continues to evolve

After a very strong start to the year, total fintech investment in Canada slowed back down to historical norms during the second half of 2019. Canada's fintech market continued to mature, with fintechs attracting significant attention particularly from corporate investors. Early in 2019, Solium was acquired by Morgan Stanley for \$821 million. In June, Wave Financial was acquired by H&R Block for \$405 million. Large fintechs also showed interest in Canadian companies through the year as evidenced by Broadridge Financial Solutions acquiring RPM Technologies for \$302 million.

Payments companies continued to be one of the most mature areas of fintech investment in Canada, in part driven by the success of companies like Lightspeed, which held a very successful IPO in March 2019 and has continued to perform extraordinarily well post-IPO. Wealth management, lending and financing were also key areas of traction with fintech investors in Canada, while interest in insurtech grows.

Due to the strength of Canada's AI capabilities and innovation ecosystem, fintech investors showed significant interest in Canadian AI companies with fintech offerings, such as MindBridge, which raised over \$15.1 million earlier in 2019.

"Global investors and global financial services companies are increasingly looking at what's happening in Canada and making investments here – buying best of breed fintechs in their space. A number of Canadian fintechs are really gaining attention from global private equity and VC firms and from global financial institutions. We have seen this quite clearly in a number of recent deals."



John Armstrong
National Industry Leader, Financial Services,
KPMG in Canada

Trends to watch in the Americas

Across the Americas, payments will continue to be a significant driver of fintech investment, while areas like regtech and cybersecurity — particularly related to anti-money laundering (AML) and fraud prevention as the world continues to move toward real-time payments and data sharing — is expected to grow.

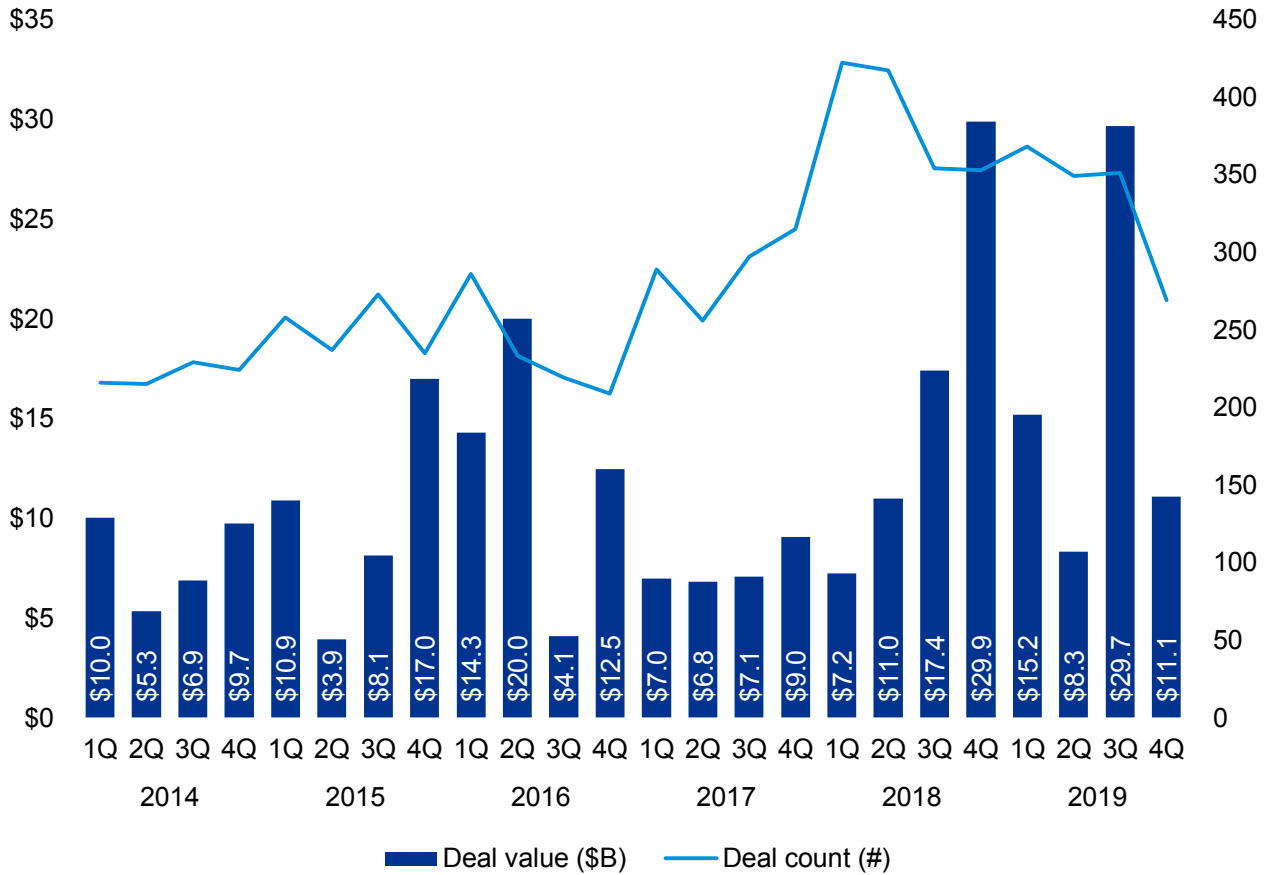
In the US, B2B services is expected to be a hot area of investment in 2020, while challenger banks are also expected to gain more traction.

In Canada, the zone where AI meets fintech will continue to be a key area of focus for investors given the country's continued leadership in the space. It is also well-situated to see a continued uptick in global investment as non-Canadian financial institutions look for best of breed fintech opportunities.

In Latin America, fintech is expected to continue its momentum, particularly in the payments and lending spaces.

Activity evens out as Q3 hits a record

Total investment activity (VC, PE and M&A) in fintech in the Americas 2014–Q4 2019

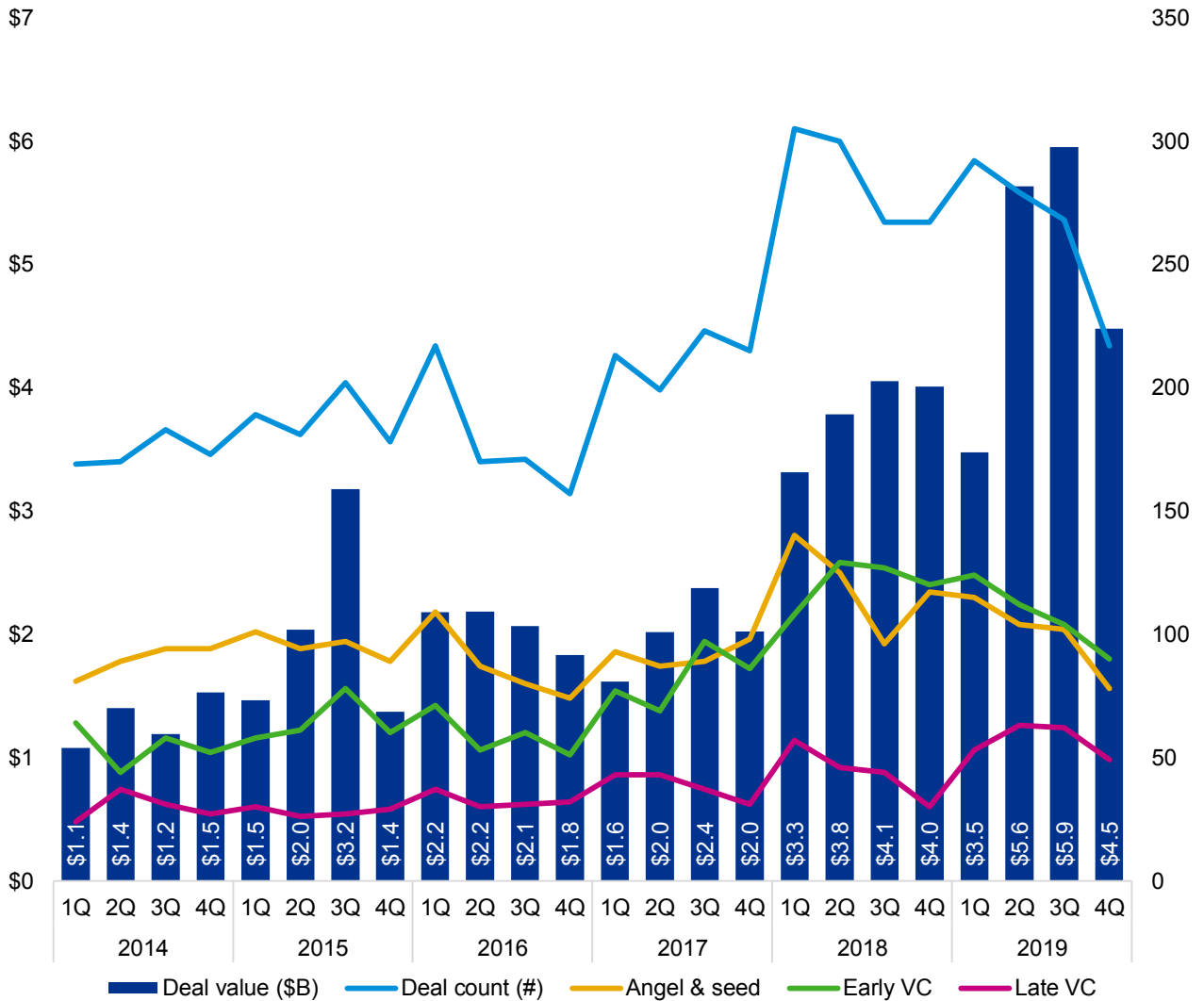


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019. Note: Please refer to the methodology at the end of the Pulse of Fintech in order to review any disparities between this edition of the Pulse of Fintech as compared to prior editions.

2019 saw a continuation of the same volume of fintech investment, barring a plunge in the final quarter that is primarily driven by lags in opaque private markets' data collection. Q3 just barely missed out on exceeding the final quarter of 2018 to see a record in aggregate deal value, hitting \$29.7 billion.

VC invested moderates after record highs

Venture investment in fintech companies in the Americas 2014–Q4 2019

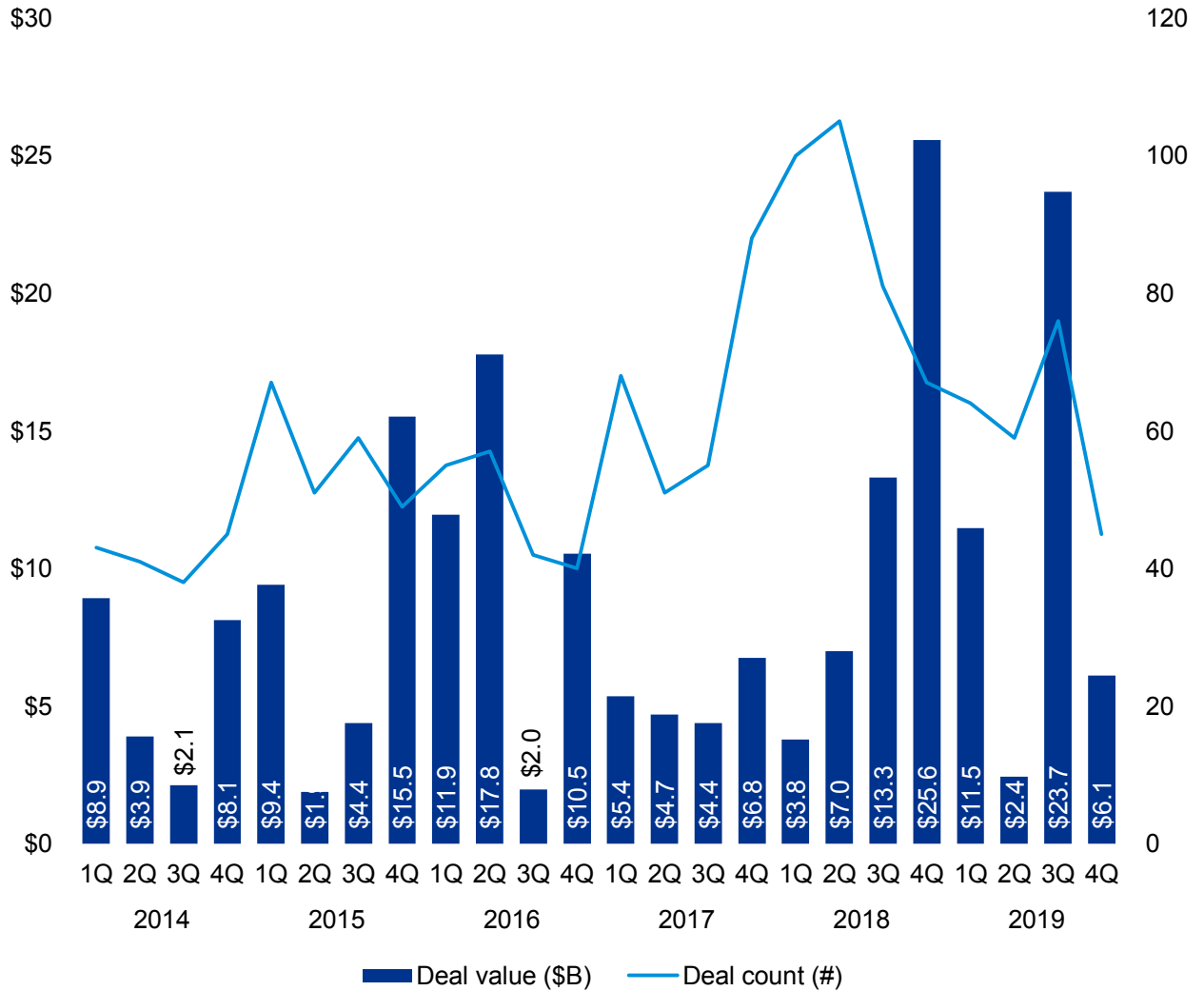


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Fintech venture investment enjoyed a consistent heyday in terms of deal volume since the start of 2018. Moreover, 2019’s middle quarters saw the highest tallies of VC invested in fintechs ever across the Americas. As key fintech sub-segments have matured, market leaders within the space are able to command ever-larger sums from willing investors eager to gain exposure.

The M&A cycle subsides

M&A activity in fintech in the Americas 2014–Q4 2019

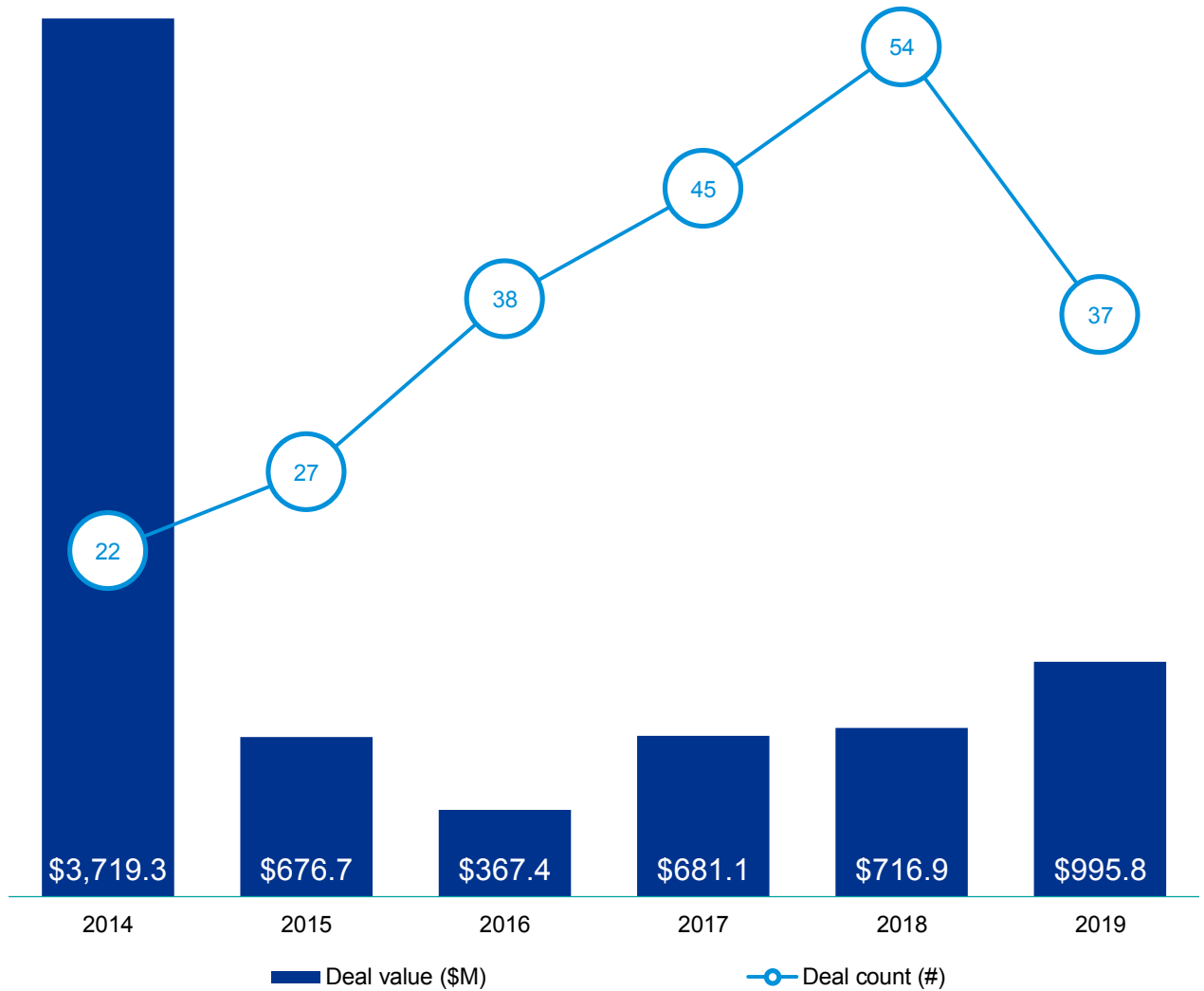


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

After peaks in 2018, M&A has moderated significantly throughout 2019 in terms of volume, with a distinct spike in deal value given the closing of the First Data acquisition in the summer. This is likely due to timing especially given the M&A cycle in fintech is still not truly enormous and thus will likely see variability.

PE firms take a breather

PE growth investment activity in fintech in the Americas 2014–2019

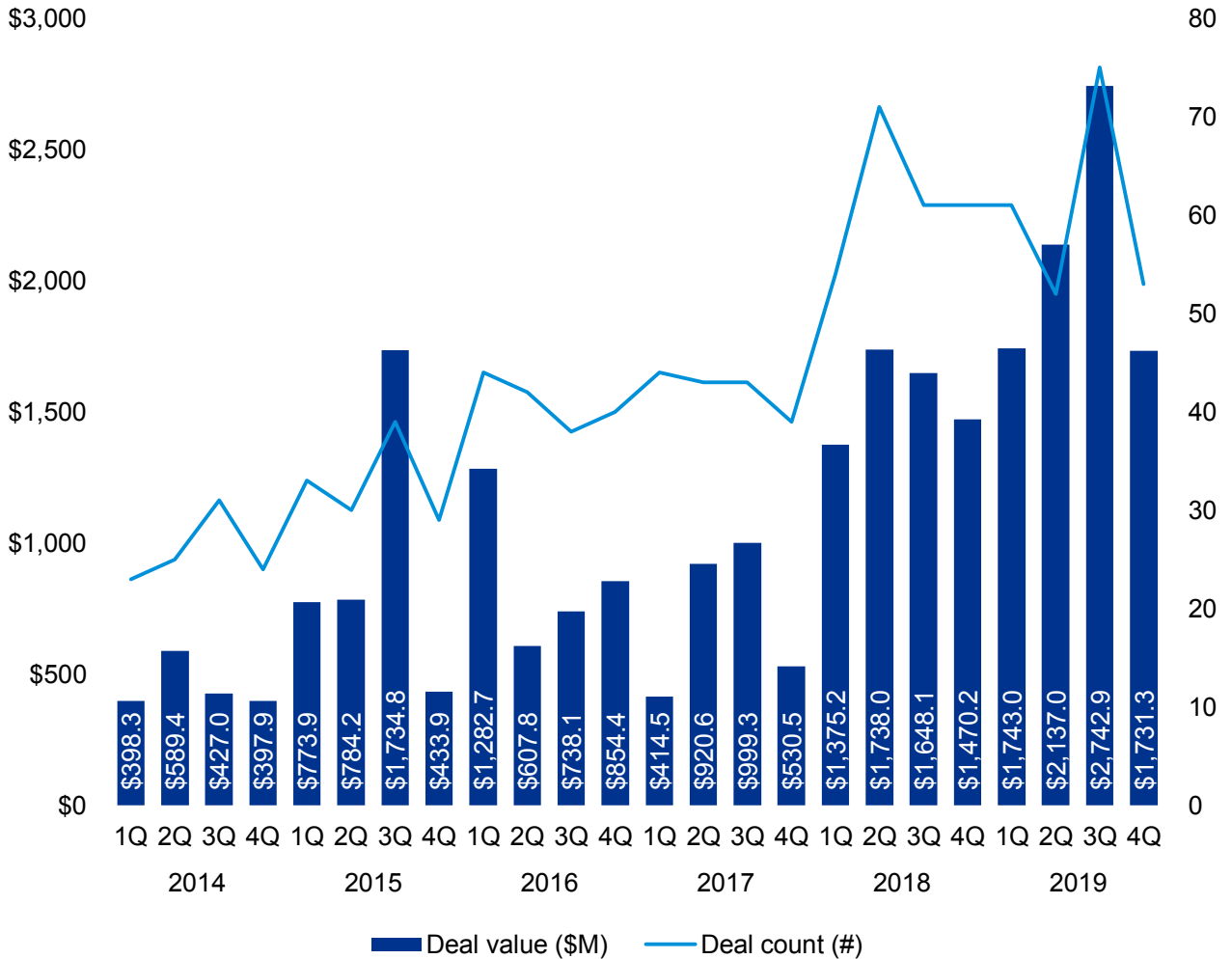


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

PE firms took a breather in 2019 after a much more active year, although it's worth noting they still invested more than any other year on record with the exception of 2014. Fund managers are still looking to gain exposure to fast-growing fintechs, yet as the market is still nascent to some degree, their activity will be variable.

CVCs help propel a record quarter

Venture capital activity in fintech in the Americas with corporate participation 2014–Q4 2019

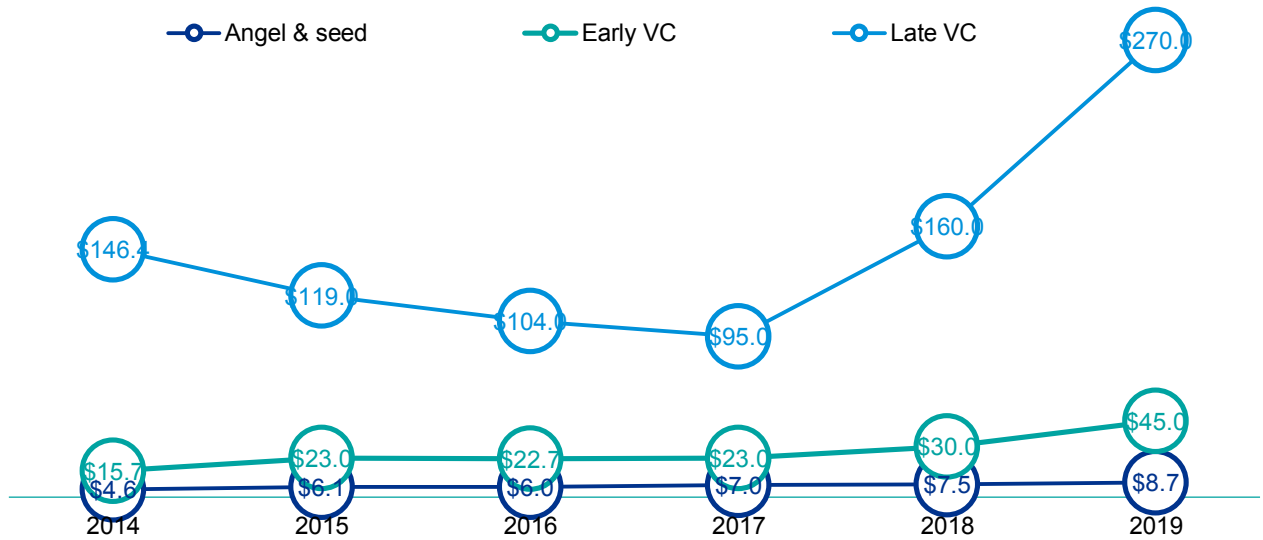


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Even as venture activity overall has grown more volatile for fintech in the Americas in terms of volume, corporate players and their venture arms keep helping propel deal value higher, participating in a historically heightened tally of transactions and even pushing VC invested in Q3 to a new record of \$2.7 billion, signifying their interest in gaining exposure to valuable innovations and strategic positioning.

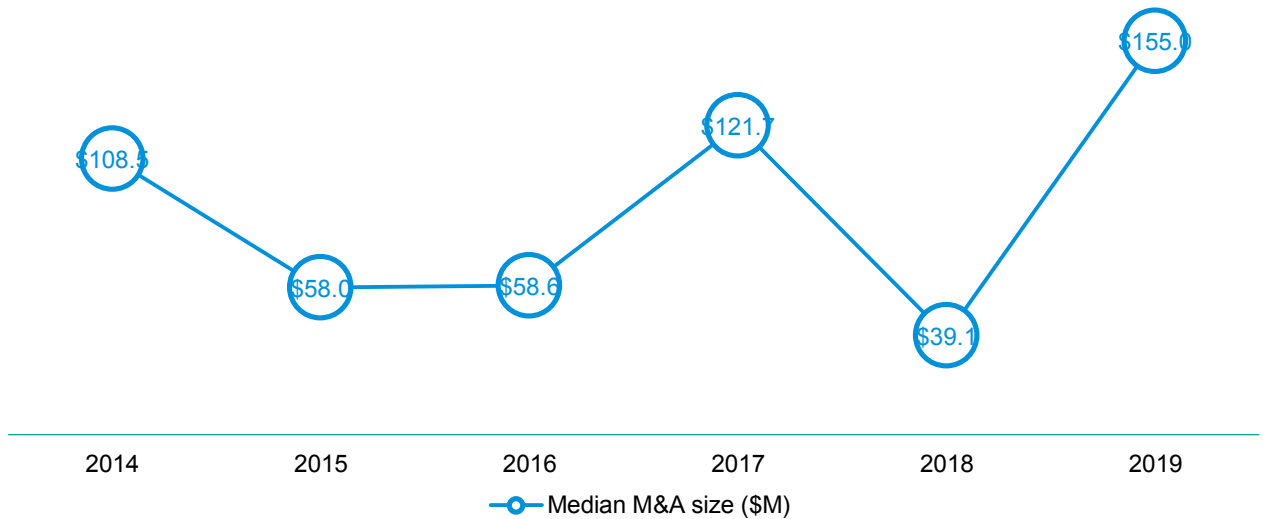
M&A returns to slightly overtop prior highs

Median venture pre-money valuations (\$M) by stage in fintech in the Americas 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of December 31, 2019.

Median M&A size (\$M) in the Americas 2014–2019

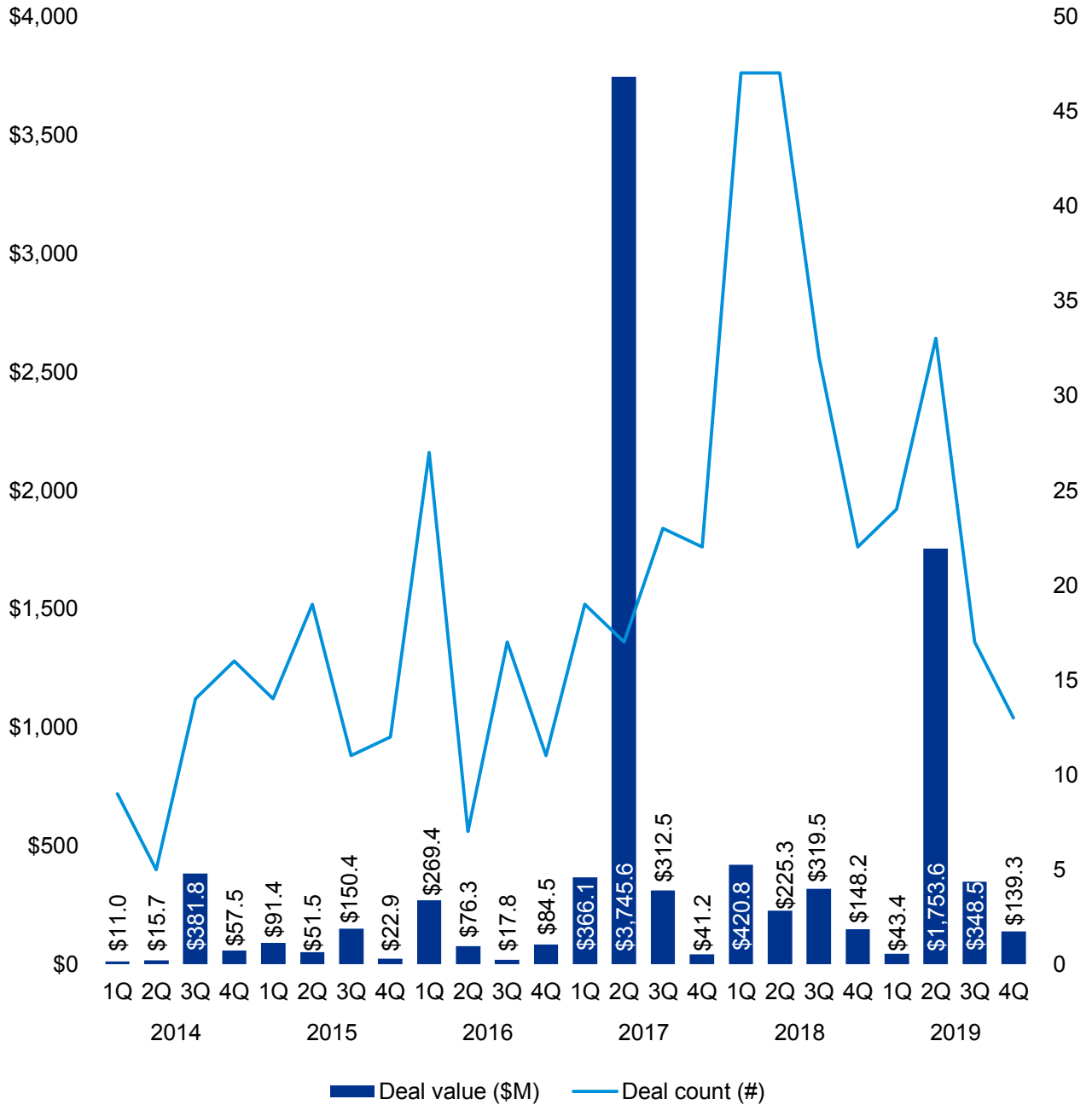


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Canada sees quieter second half

Total investment activity (VC, PE and M&A) in fintech in Canada 2014–Q4 2019

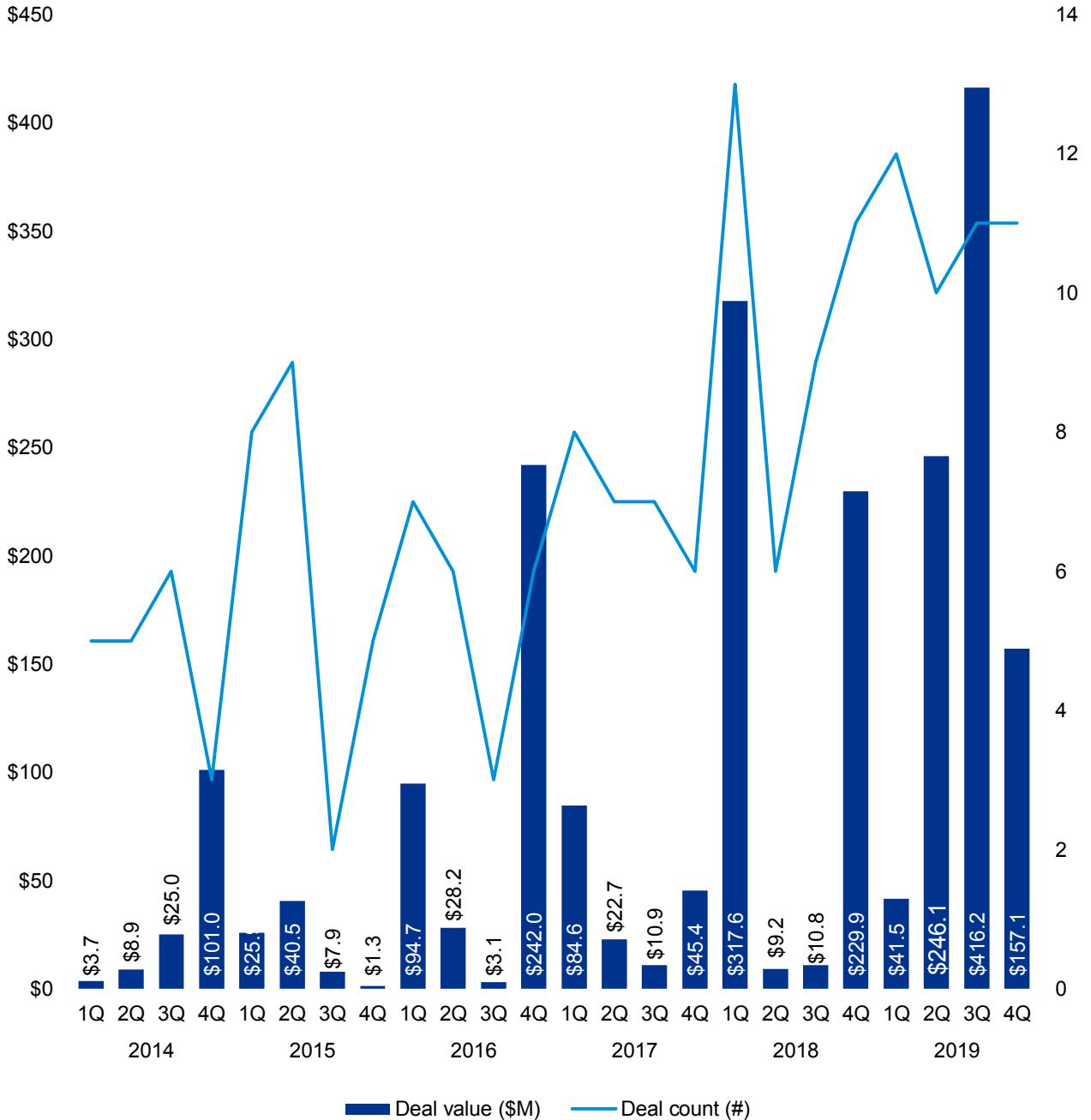


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Volume evens out amid a record Q3

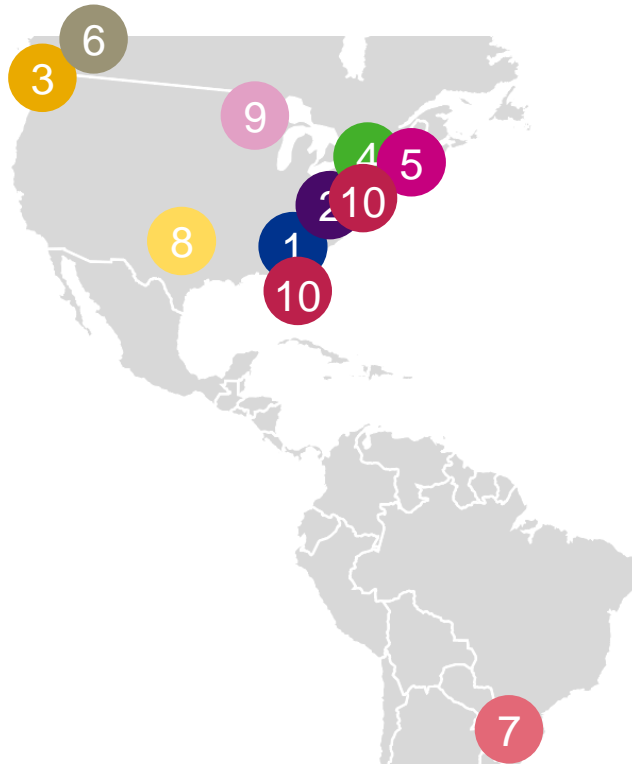
Total investment activity (VC, PE and M&A) in fintech in Brazil 2014–Q4 2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Top 10 fintech deals in Americas in 2019



- | | |
|--|--|
| <p>1 First Data — \$22B, Atlanta, US
Institutional/B2B
<i>M&A</i></p> | <p>6 Shareworks by Morgan Stanley — \$843.8M, Calgary, Canada
Institutional/B2B
<i>M&A</i></p> |
| <p>2 Dun & Bradstreet — \$6.9B, Short Hills, US
Institutional/B2B
<i>Buyout</i></p> | <p>7 Prisma Medios de Pago — \$725M, Buenos Aires, Argentina
Payments/transactions
<i>Buyout</i></p> |
| <p>3 Assurance IQ — \$3.5B, Bellevue, US
Insurtech
<i>M&A</i></p> | <p>8 Innovative Aftermarket Systems — \$720M, Austin, US
Institutional/B2B
<i>M&A</i></p> |
| <p>4 Investment Technology Group — \$1B, New York, US
Capital markets
<i>M&A</i></p> | <p>9 Bright Health — \$635M, Minneapolis, US
Insurtech
<i>Series D</i></p> |
| <p>5 Axioma — \$850M, New York, US
Institutional/B2B
<i>M&A</i></p> | <p>10 InstaMed — \$600M, Philadelphia, US
Institutional/B2B
<i>M&A</i></p> |
| | <p>10 CSI Enterprises — \$600M, Bonita Springs, US
Institutional/B2B
<i>M&A</i></p> |

Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), * as of December 31, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

In 2019, US fintech companies received investment of

\$59.8B

across

1,144 deals



Robust year for fintech investment in the US

Total fintech investment across M&A, VC and PE in the US nudged up slightly in 2019 to set a new annual record of \$59.8 billion. The strong level of fintech funding was propelled by the \$22 billion acquisition of payments processing company First Data by Fiserv.

US-based fintech VC investment achieved several new records during 2019. Q3'19 saw quarterly fintech investment reach \$5.06 billion — nearly on par with the record \$5.07 billion in Q2'19. These two quarters helped annual VC funding in fintech to a record annual high of \$17.4 billion.

Diversity of investments driving growth in the US fintech market

The US fintech market was quite robust in 2019 as investors with a significant amount of investment capital at their fingertips looked for opportunities to invest. The ongoing investor focus on late stage deals — a trend that extended well beyond the fintech investment market — combined with the growing maturity of fintechs across the US helped to drive a strong deals environment.

The expansion of fintech beyond the traditional payments and lending spaces also helped to fuel investor interest in fintech within the US. In particular, there was growing interest in B2B-focused companies, insurtechs, and fintech-specific cybersecurity-related solutions.

Competition heating up in the digital banking space

The digital banking space in the US saw a strong increase in activity as European challenger banks, including Revolut from the UK and N26 from Germany, expanded into the US market. Homegrown digital bank Chime also raised \$500 million in December, following on a \$200 million raise earlier in the year that propelled the company to unicorn status. Chime is expected to use the new funds to fuel its product expansion and geographic growth, potentially through acquisition as it works to achieve greater scale¹.

Digital banking is expected to remain hot both from direct investment and partnership perspectives. This is because the US has a number of community banks that do not have the technology platforms needed to meet the needs of today's consumers. This will likely drive continued investment in the space as companies look to leverage fintech offerings for their own benefit.

Insurtech space continuing to gain traction in US

The insurtech sector in the US continued to see growing interest from investors in 2019, led by the \$3.5 billion acquisition of Assurance IQ by Prudential. Insurtechs in the US matured over the course of the year, with several working to expand beyond their initial niche focus area and into other product or service areas. At the same time, US insurtech investors became increasingly interested in fintechs targeting inefficiencies in the value chain across the front, middle, and back office.

Corporate investment was particularly strong during 2019 as traditional insurers increasingly recognized the importance of modernizing their technology stack and their consumer and business offerings. To help drive more rapid change, many large insurers are looking for ways to leverage insurtechs within their business model, either through partnerships or through acquisition.

“It was a very strong year for fintech in the United States. All the disruption that we see across financial services is creating opportunities for fintechs across the board. B2B focused fintechs are particularly attractive to investors given the large number of financial institutions looking for ways to improve their digital offerings and customer experience to their small business and corporate clients — not to mention helping their clients become more operationally efficient.”



Robert Ruark
Principal, Financial Services Strategy and Fintech Leader,
KPMG in the US

¹ <https://www.cnbc.com/2019/12/05/chime-quadruples-valuation-to-5point8-billion-as-it-raises-500-million.html>

Robust year for fintech investment in the US (cont'd)

Strong number of unicorn births highlights growing maturity of fintech sector

2019 saw 12 new fintech unicorns birthed in the US. In the second half of the year, new unicorns included insurtechs Hippo and Next Insurance, blockchain-based companies Ripple and Figure Technologies, digital bank Dave, working capital marketplace C2FO and lending rewards platform Ibotta. The diversity of these new unicorns highlights the growing maturity of different subsectors of fintech.

B2B companies gaining significant traction from investors

One burgeoning area of fintech that gained traction in 2019 was B2B-focused fintech solutions. JPMorgan's acquisition of medical payments company InstaMed in July for \$600 million is a good example. As the US moves towards real-time payments, there will likely be increased interest from investors in fintechs focused on the electrification of B2B payments. Fintechs able to enhance business capabilities and improve transaction times or customer responsiveness for financial institutions will likely also draw attention from fintech investors.

Complex regulatory issues driving some tension

The complex regulatory environment for fintechs in the US continued to create some challenges for fintech growth and expansion in 2019. One notable issue was the boundary between state and federal regulators. In the fall, the Office of the Comptroller of the Currency (OCC) lost its latest bid to provide a Fintech Charter to allow fintechs to provide banking services across the country².

At the state level, the California Consumer Privacy Act (CCPA) comes into effect on January 1, 2020. The law, which gives consumers significant control over their own data, will significantly affect the operations of a large percentage of companies doing business in the state. Over the next few quarters, the ramifications of the CCPA will be critical to watch, particularly as it relates to fintechs that premise their business models on the collection of data. Changes could also affect incumbent banks and insurance companies looking to expand their digital offerings.

Fintech M&A activity in the US remains steady

After seeing strong activity in 2017 and 2018, fintech M&A activity returned to historical levels in 2019. Despite the drop-off in the number of deals, however, total M&A value in the US remained sizable at \$41.3 billion, if down from the \$43.4 billion seen in 2018.

A significant amount of M&A activity continued to focus on the payments space; the largest fintech deal of 2019 was the \$22 billion acquisition of First Data by Fiserv. While other M&A deals were not as large, they still highlight the ongoing M&A activity in the payments space. A large portion of this activity is propelled by corporates looking to scale up their digital offerings. In September, for example, US Bank acquired Talech, a fintech focused on providing integrated point-of-sale services to small and medium-sized businesses. In December, US Bank announced its second acquisition in the quarter: UK payments gateway company Sage Pay.

Trends to watch in 2020

Looking forward into 2020, fintech activity is expected to remain strong, with continued activity in the payments sector. The challenger banking space is expected to continue to be hot, with competition coming from proven challenger banks in the UK that have targeted the US as part of their expansion efforts. Insurtech and proptech are also expected to remain strong areas for fintech investment.

Over the next few quarters, there will also likely be a continued proliferation of fintechs partnering with banks and other financial institutions. As AI capabilities become more mature, these partnerships will be critical for financial institutions looking to provide stronger personalization to their customers.

² <https://www.crowdfundinsider.com/2019/10/153207-final-judgement-occ-loses-fintech-charter-legal-battle-as-judge-rules-in-favor-of-new-york-state-department-of-financial-services>

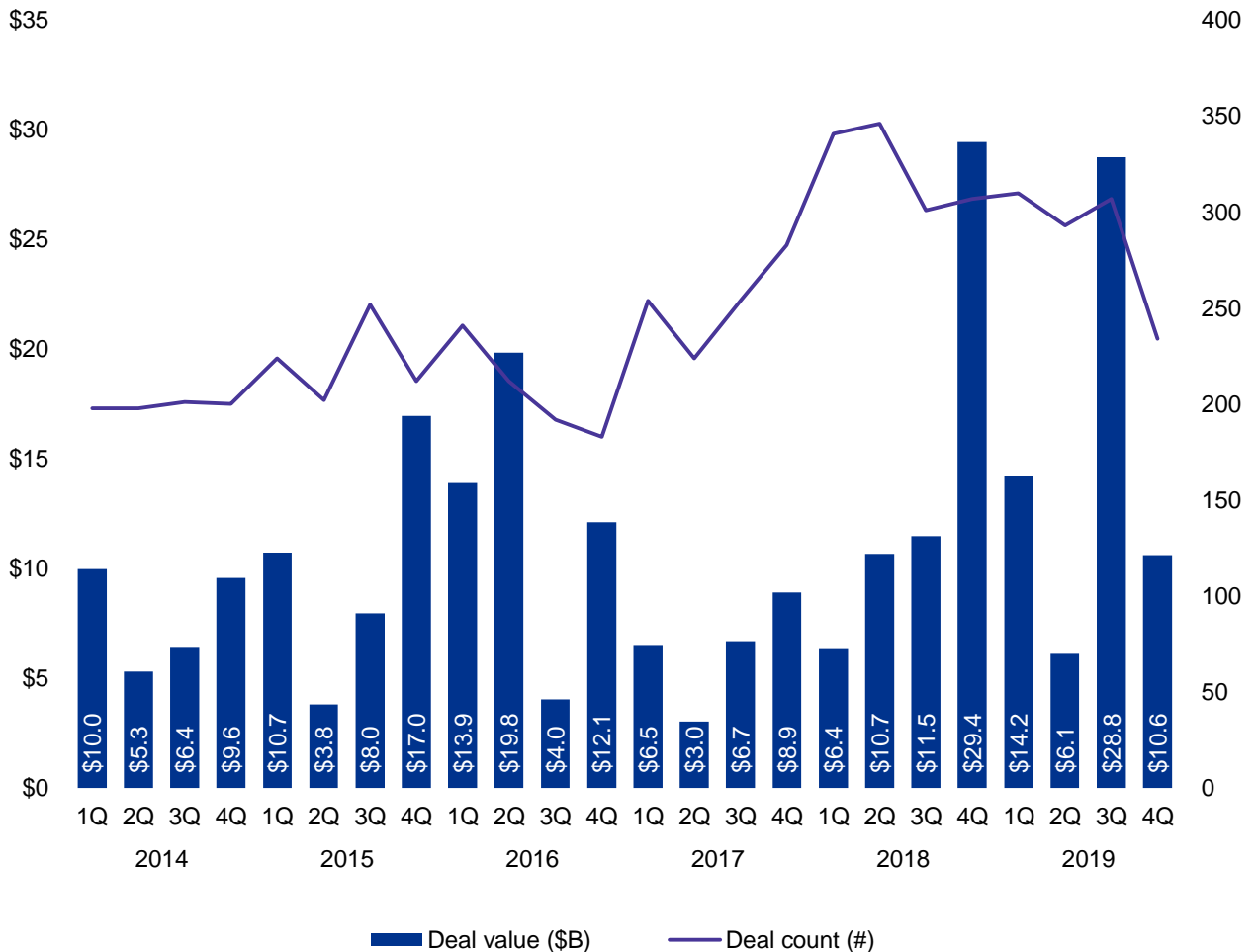
³ <https://ibsintelligence.com/ibs-journal/ibs-news/us-bank-to-scale-up-digital-operations-via-talech-acquisition/>

⁴ <https://finance.yahoo.com/news/u-bancorp-acquire-sage-pay-135101962.html>

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

2019 sees second-highest quarter in years

Total investment activity (VC, PE and M&A) in fintech in the US 2014–Q4 2019

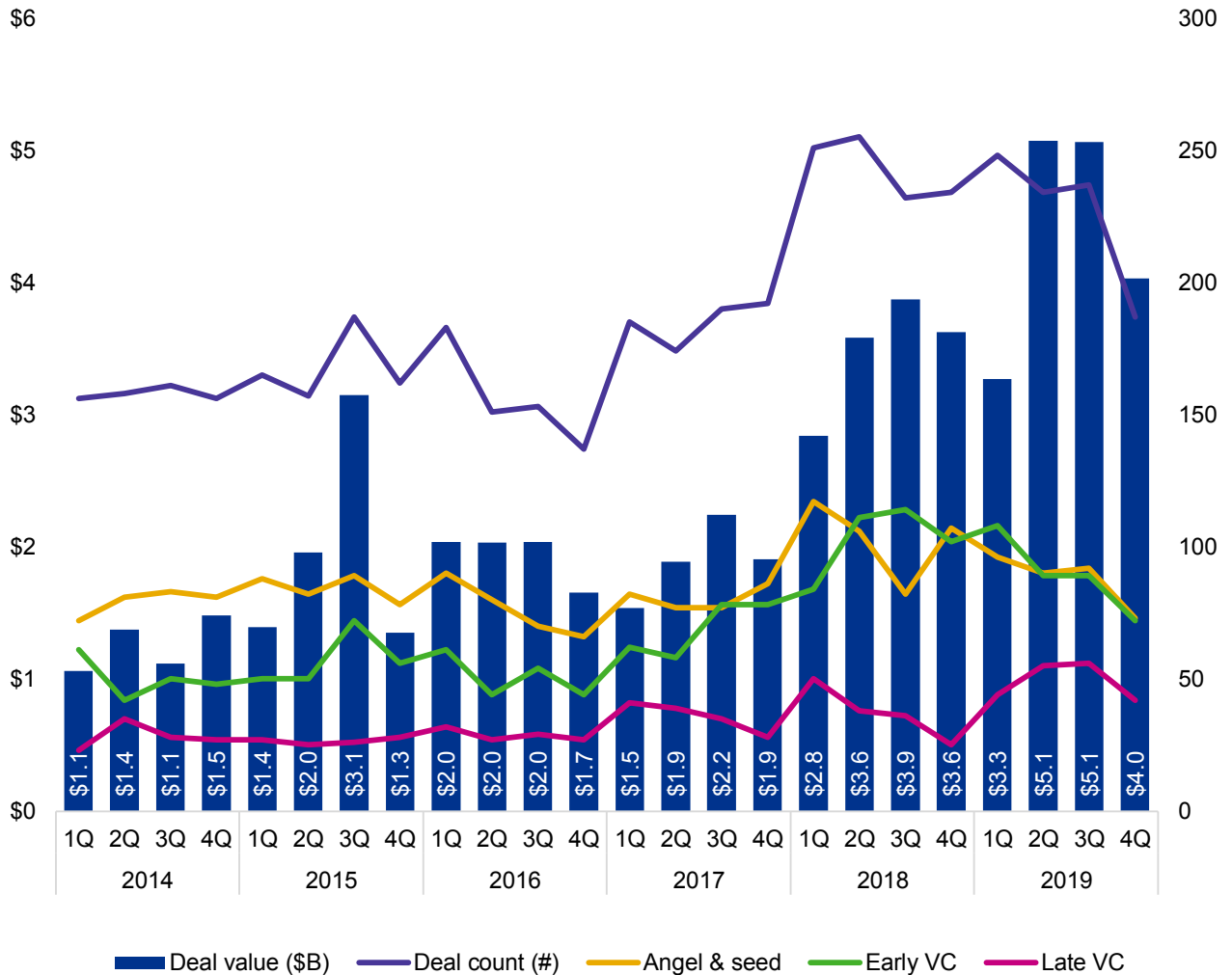


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019. Note: Please refer to the end of the document for any changes in methodology between this and prior editions of the Pulse of Fintech.

After the mega-deal with Refinitiv in Q4 2018. Interestingly, given its announced acquisition in August 2019 by London Stock Exchange, Refinitiv is poised for another transaction that may help set records in 2020. It seemed unlikely that the US would see another record quarter, but maturation in key fintech sub-segments continues to drive significant mergers. Q3 2019 saw the closure of the First Data \$22 billion buy.

VC invested hit new highs in 2019

Venture investment in fintech in the US 2014–Q4 2019

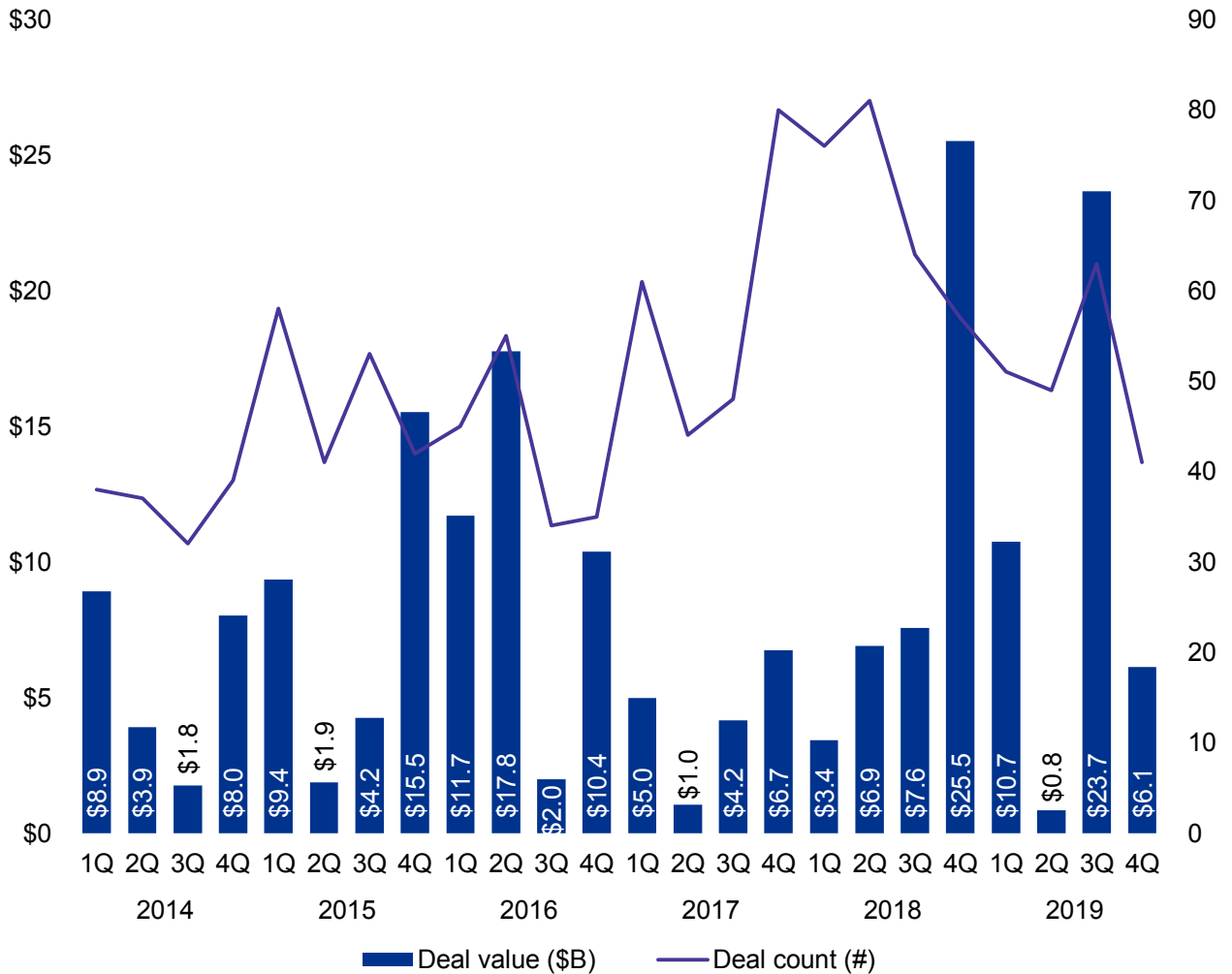


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.
 Note: Please refer to the end of the document for any changes in methodology between this and prior editions of the Pulse of Fintech.

Although M&A activity has not turned in as many blockbusters as of late, VCs seem determined to fund potential category leaders via mega-financings until they dominate their arenas. Accordingly, VC invested soared to a new high in not only Q2 2019 but also the following quarter, thanks to mega-deals like the \$500 million funding of Chime.

M&A returns to historical averages

M&A activity in fintech in the US 2014–Q4 2019

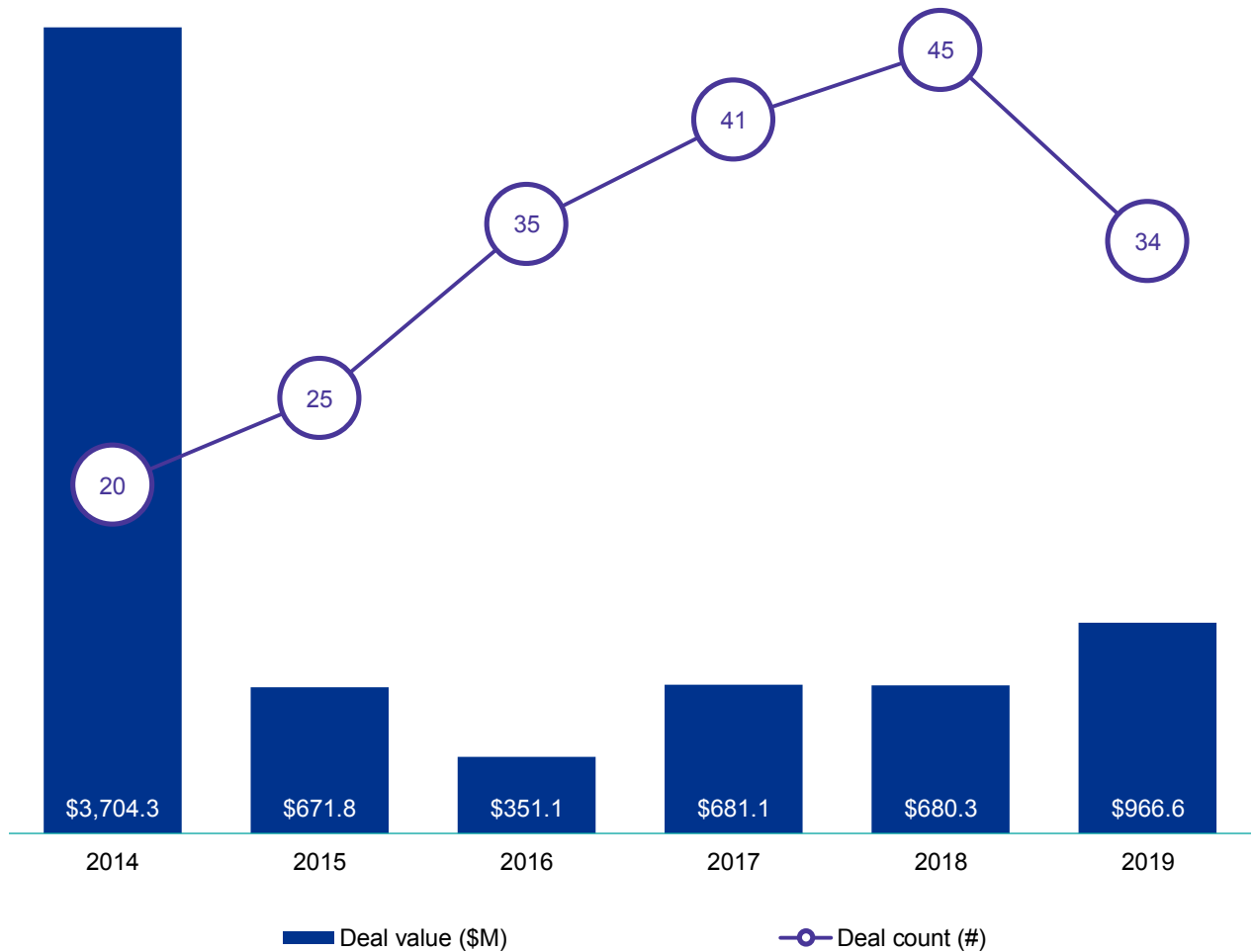


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Consolidation in key fintech sub-segments has slowed as some of them, like payments, have experienced most of the mergers that made the most sense. Consequently, the M&A cycle has returned to historical averages.

PE firms slow down

PE growth investment activity in fintech in the US 2014–2019



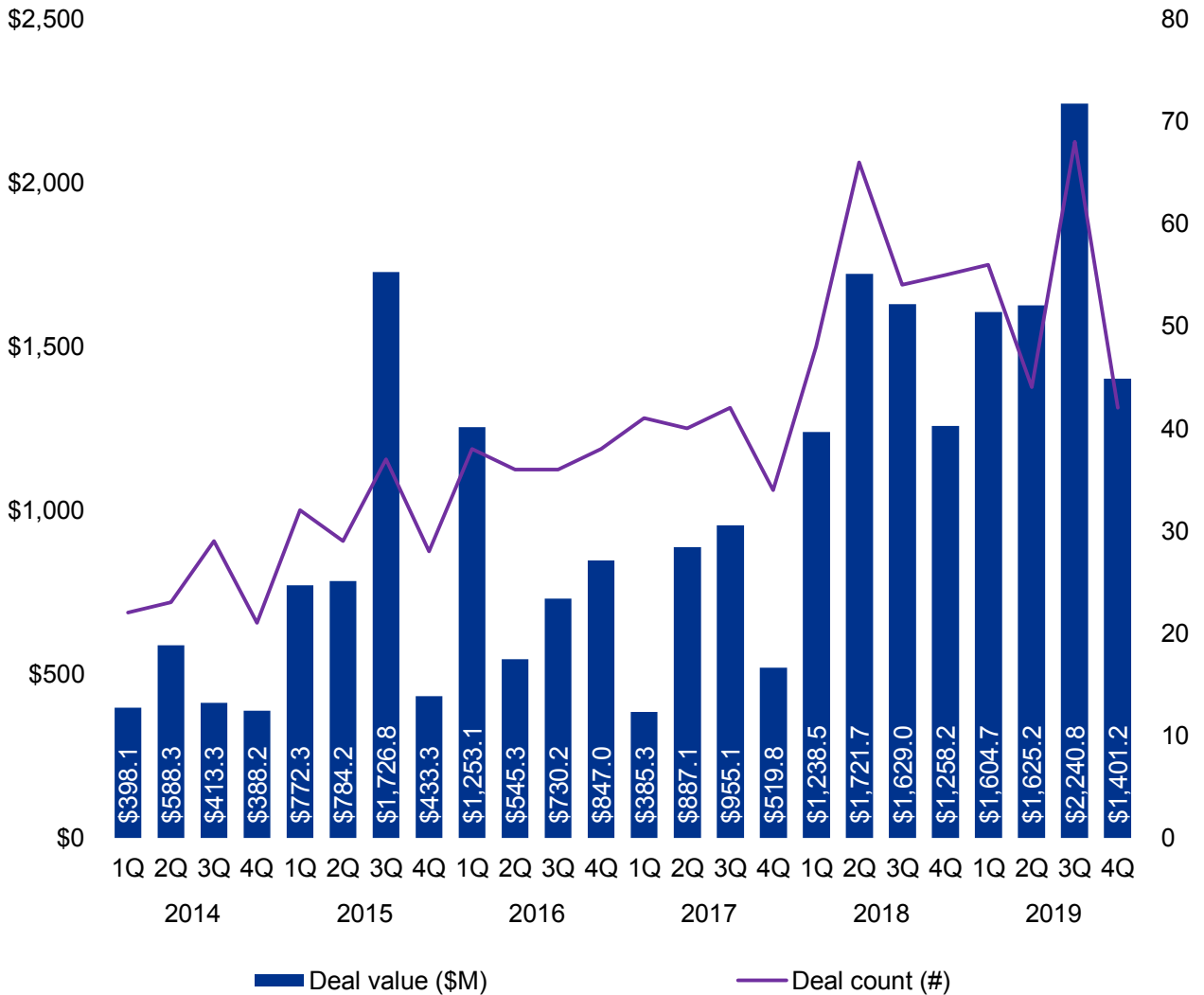
Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Especially within the US, PE firms are increasingly focused on technology companies, especially software. Fintech is no exception, but is still relatively new to PE firms' investment theses so the rate of investment is likely to remain variable. That said, PE firms are willing to spend big when the rationale is clear, evidenced by the \$960 million+ recorded in 2019.

Corporates pull back throughout 2019

Venture activity in fintech in the US with corporate participation 2014–Q4 2019

As the US venture scene remains quite active, with 2019 logging the highest tally for VC invested with corporate participation in fintech ever, fintech has seen a decline in the rate of corporate activity. This is likely due to financial services giants opting to either acquire innovative startups or develop their own competing solutions in-house, such as Goldman Sachs' lending platform Marcus.

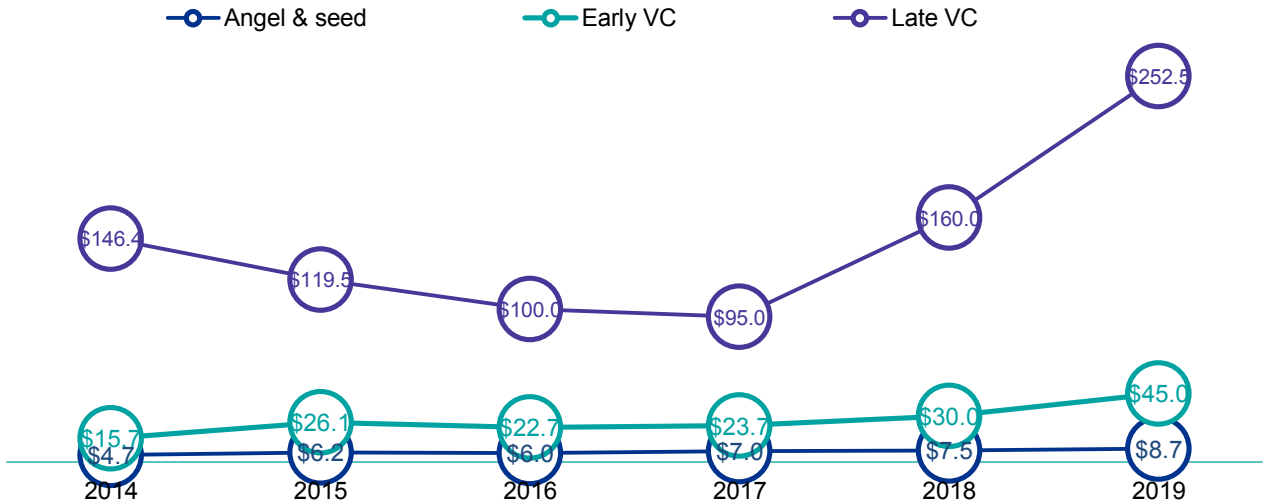


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

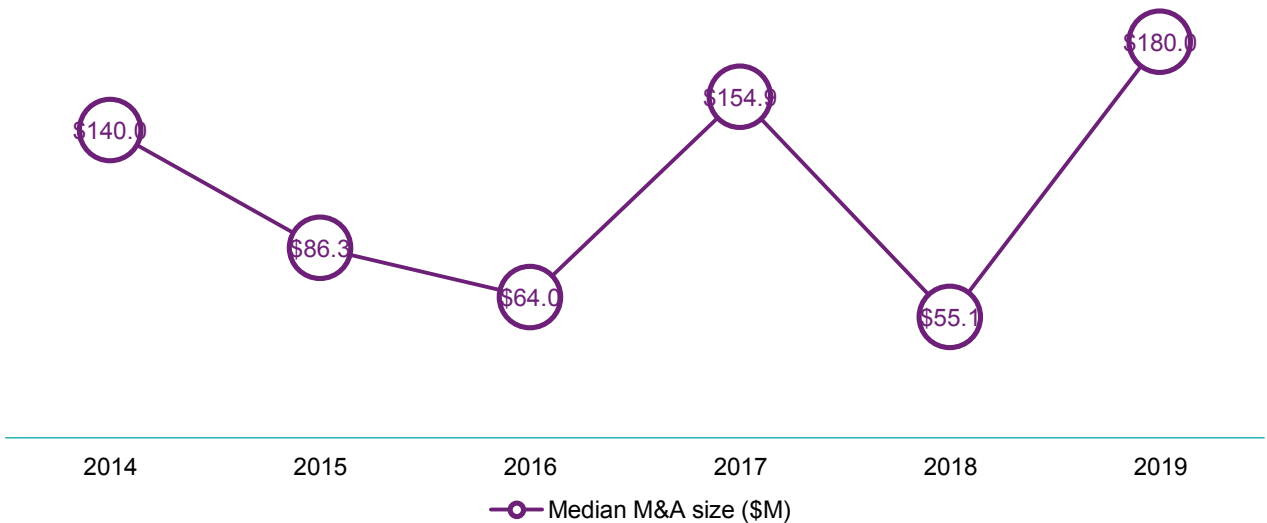
Every stage and even M&A see significant gains

Median pre-money venture valuations (\$M) by stage in fintech in the US 2014–2019



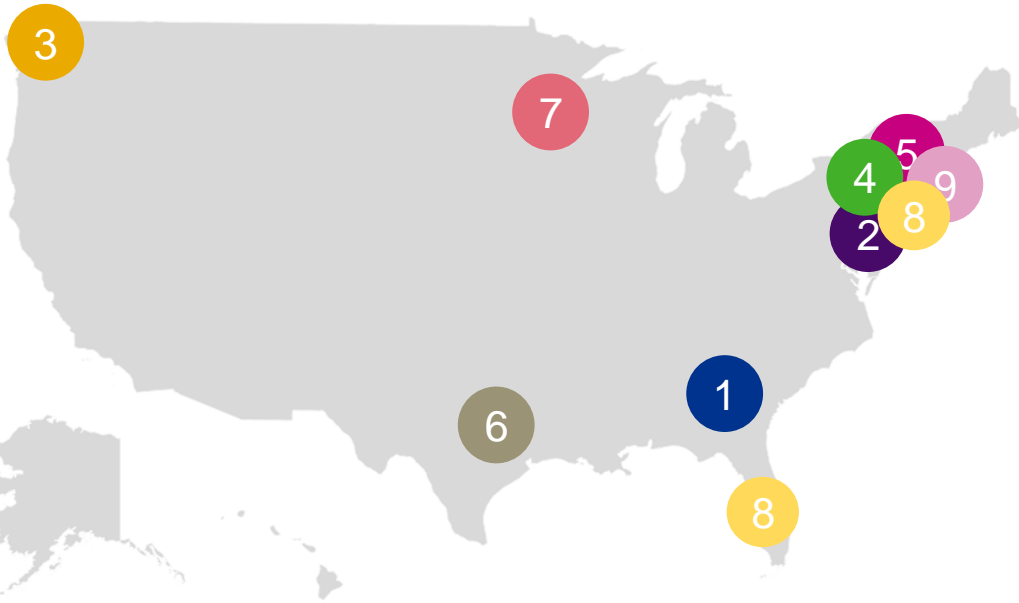
Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Median M&A size (\$M) in fintech in the US 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Top 10 US fintech VC, PE and M&A deals in 2019



- 1 First Data** — \$22B, Atlanta, GA
Institutional/B2B
M&A
- 2 Dun & Bradstreet** — \$6.9B, Short Hills, NJ
Institutional/B2B
Buyout
- 3 Assurance IQ** — \$3.5B, Bellevue, WA
Insurtech
M&A
- 4 Investment Technology Group** — \$1B, New York, NY
Capital markets
M&A
- 5 Axioma** — \$850M, New York, NY
Institutional/B2B
M&A
- 6 Innovative Aftermarket Systems** — \$720M, Austin, TX
Institutional/B2B
M&A
- 7 Bright Health** — \$635M, Minneapolis, MN
Insurtech
Series D
- 8 InstaMed** — \$600M, Philadelphia, PA
Institutional/B2B
M&A
- 8 CSI Enterprises** — \$600M, Bonita Springs, FL
Institutional/B2B
M&A
- 9 Buildium** — \$580M, Boston, MA
Institutional/B2B
M&A

Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019..

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Spotlight

Alliances: a win-win strategy

— Why are big techs and financial institutions forming strategic alliances and what does it mean for competition?

IoT moving across sectors

— How is the Internet of Things (IoT) creating opportunities for fintechs and financial institutions?



Spotlight on fintech

Alliances: a win-win strategy

By Irene Pitter, Global Alliances Director, Financial Services, KPMG in Germany



“
...partnerships
don't have to
be limited to
start-ups —
working
together with
established
institutions can
create value.”

The financial services industry today is characterized by change. Investor interest and capital is pouring into fintech companies — digital banks, insurtechs, wealthtechs, proptechs and every option in between are shifting how financial services are created, offered and evaluated.

New changes, new challenges

This shift has spurred many traditional financial institutions to take action. Yet, changes aren't always straightforward. Financial institutions know they need to embrace innovation, and they also have to find better ways to understand and respond to their customers.

At the same time, the shift has put a spotlight on a new area of opportunity for big tech companies like Alibaba, Apple, Google, Tencent and others. These companies have incredible reach, deep roots into their customers' lives, and robust customer data. Big techs are also constantly looking for ways to provide their customers with more value, to enhance customer loyalty by providing a more integrated ecosystem. Most already offer payments solutions, so extending their offerings to include financial products makes sense. However, there are no strong indicators that the big tech companies want to become banks. The regulatory burden is so far considered too high for their appetite¹.

Forging strategic alliances

Big tech and financial institutions are already investing in fintechs to help advance their strategic goals. For example, Tencent led a \$35 million investment in open banking focused TrueLayer in the UK this year².

What they are realizing that partnerships don't have to be limited to start-ups — working together with established institutions can create value. Over the past 6 months, there have been a number of strategic business relationships announced, such as Google's partnership with Citibank and Stanford Federal Credit Union, to offer smart checking accounts³ and Apple's announcement of a partnership with Goldman Sachs to offer the Apple Card credit card⁴. These will likely only be the beginning.

Making it work

So, what does it take to drive value from partnerships between big tech companies and traditional institutions? KPMG firms' experience working with financial institutions, fintechs and big techs suggests that the areas of central importance are organizational, cultural and strategic in nature.

Here are four key areas where financial services executives may want to focus attention⁵:

¹ <https://www.wired.com/story/tech-companies-banks/>

² <https://www.finextra.com/newsarticle/33924/tencent-leads-40m-investment-in-uk-fintech>

³ <https://ibsintelligence.com/ibs-journal/ibs-news/google-to-offer-personal-checking-accounts-in-partnership-with-citi-stanford-fcu/>

⁴ <https://www.apple.com/newsroom/2019/08/apple-card-launches-today-for-all-us-customers/>

⁵ <https://home.kpmg/xx/en/home/insights/2020/01/banking-on-consumer-platforms.html>

Spotlight on fintech

Alliances: a win-win strategy (cont'd)



1. **Get clear on your business drivers** — What business objectives do you aim to achieve through these partnerships? Let those govern your decisions. Improvements in customer experience may be your goal. If so, make the customer central to your strategy. If improvements in efficiency are the objective, put financial and productivity performance measures at the core. Stay focused on the primary drivers of the partnership, regardless of how it evolves.
2. **Gain agility** — Speed is of the essence when working with tech firms. The priority for financial services executives must be on improving organizational agility — from rationalizing IT infrastructure to adopting agile implementation techniques. Consider this question: If the financial institution is to operate at market speed, what technology operating models need to be in place?
3. **Acquire the skills and capabilities needed to succeed** — Partnerships with consumer platforms demand unique skills. Consider how you will attract, develop and retain the people you need to, not only nurture ideas but act on them once they're ready for commercialization.

The institution's approach to skills development and talent management will be vital to driving value from future models and innovations.

4. **Be bold** — This is, perhaps, the most important area of all. To successfully move their organizations into the future, financial services leaders must be daring. They must have the nerve to take chances and accept failure. There simply is no other way. Further, they must have a strong vision for the organization and make a compelling case for it with employees, customers and stakeholders. Difficult decisions will have to be made. It won't be easy to balance the imperative for transformative change against the institution's risk and regulatory requirements.

I expect in 2020 to hear even more announcements of new partnerships. However, not all of these will succeed. The organizations that understand how strategic alliances work and are committed to the end result will be the ones able to drive future value.

Spotlight on fintech

IoT moving across sectors

By Greg Corlis, Managing Director, Emerging Technologies and National IoT Leader, KPMG in the US



Financial institutions and fintechs look to leverage IoT as technologies mature

“
While IoT raises challenges related to data privacy and security — it can also be used to help address those issues.”

Technologies based on the Internet of Things (IoT) are changing the game across sectors, from industrial manufacturing and telecom to healthcare and hospitality. With the exception of specific use cases, such as point-of-sale payments solutions like Square, however, financial services companies have been less quick to leverage IoT’s potential.

This is beginning to change. In the insurance and asset management subsectors of the financial services industry, both fintechs and traditional financial institutions are beginning to leverage maturing IoT technologies, like sensors and beacons, to improve internal operations and individualize customer service offerings and experiences. For example, insurance companies like Allstate (Drivewise¹) and State Farm (Drive Safe & Save²) are using IoT to offer discounted automotive insurance to individuals willing to have their driving behaviors automatically monitored.

Meanwhile, some asset management companies are leveraging IoT solutions as a part of building management, such as to support real-time monitoring and analysis of building security, room usage, air quality, and temperature. Smart and connected home IoT systems provide similar capabilities directly to

customers through the integrated use of water sensors, automatic temperature controls, entry cameras, motion detectors, and other equipment to provide real-time home monitoring.

The big challenge: data privacy and security

While the insurance industry has looked at personal IoT (wearables like smart watches) to support individualized life and health insurance offerings, to date there has been little traction in this area due to the significant privacy considerations related to data collection and usage. This challenge may also be holding back banks and other financial institutions that recognize how IoT could enable more individualized customer service, such as by using beacons to identify individuals entering a bank, yet recognize their customers are concerned about how their data will be monitored and used.

Another stumbling block toward the use of wearables to enhance financial services is the need to work with other organizations. To provide an integrated experience, financial institutions would have to work with Apple, Google, Samsung and other big techs to integrate any fintech IoT offering into a broader product

¹ <https://www.allstate.ca/webpages/auto-insurance/drivewise-app.aspx>

² <https://clark.com/insurance/state-farm-insurance/>

Spotlight on fintech

IoT moving across sectors (cont'd)



ecosystem. This would only increase the complexity of data privacy and security.

The challenge but also the solution

Interestingly, while IoT raises challenges related to data privacy and security, it can also be used to help address those issues. Already, numerous companies in Asia, the US and beyond are developing biometrics-focused security and ID management technologies. As these solutions mature, they will be increasingly applied in the financial services industry. While many technologies will be mobile device-focused in the short-term, over the long-term, apps and other offerings could be included in other smart devices.

Trends to watch for in 2020 and beyond

The asset management space is expected to remain the clear leader in the financial services sector when it comes to the use of IoT, primarily due to its strong applicability to building management. With the increasing focus on sustainability in some jurisdictions, like Germany, IoT-enabled building management solutions will continue to be of strong interest to investors.

The insurance sector is also well positioned to see relatively quick growth in terms of the use of IoT. As data ownership and privacy issues are addressed, more insurance companies will likely offer a greater variety of IoT-enabled insurance offerings similar to the connected car insurance already on offer. For example, discounted home insurance for houses monitored by smart devices.

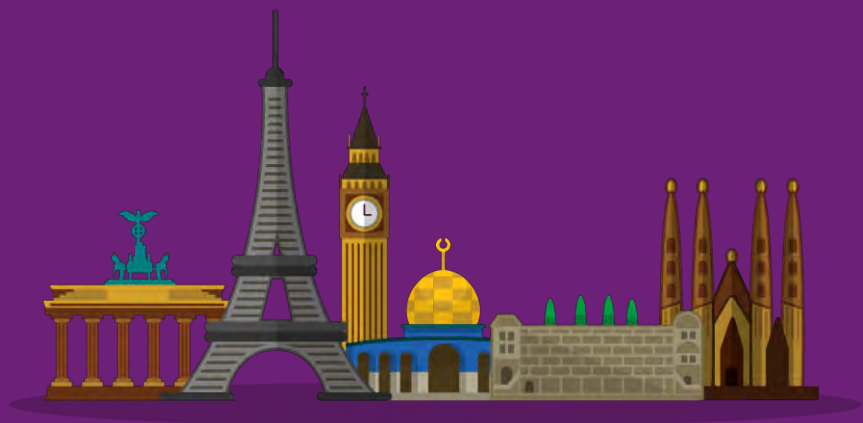
Traditional banks will likely take longer to embrace IoT opportunities, simply because they will need to rely heavily on partnerships with big techs in order to create offerings that appeal to customers. However, as big techs continue to look for ways to expand their customer service offerings, they will increasingly look to form partnerships with banks to offer specialized products and services. These types of strategic alliances will help propel an increased use of IoT in the financial services industry over time.

In 2019, investment in fintech companies in Europe hit

\$58.1B

with

753 deals



Fintech investment in Europe soars, driven by Worldpay's acquisition by FIS

Total fintech investment in Europe skyrocketed in 2019, driven primarily by the \$42.5 billion acquisition of payments processing company Worldpay by FIS in July¹. Flourishing innovation ecosystems in numerous European countries, the broadening scope of fintech offerings, and growing interest from global investors also helped spark investment.

Diversity of fintech companies driving interest across Europe

The top fintech deals in Europe in 2019 were incredibly diverse both geographically and from a solutions perspective. After Worldpay (UK), the next three largest deals included the acquisition of digital asset trading company AliExchange in Estonia for \$2.1 billion, the buyout of alternative investment software company eFront in France for \$1.3 billion, and the buyout of platform company SIA (Milan) in Italy for \$894 million.

The growing maturity of fintech markets across the region and the strong need for financial institutions to up their game helped drive investor interest in fintechs. Europe also gained significant attention from global investors looking for opportunities to grow their own market reach or leverage best-in-class fintech solutions developed elsewhere. For example, Australia's Commonwealth Bank participated in Sweden-based Klarna's \$460 million funding round in Q3'19.

European fintech companies attracting larger ticket sizes

Median VC deal sizes in Europe grew significantly across all deal stages in 2019. This growing maturity of fintechs across the region led to numerous \$100 million+ funding rounds during the year. For example, in the second half of the year, Germany-based N26 raised \$470 million, Sweden-based Klarna raised \$460 million, and UK-based companies Ebury, Hastee and Rapyd raised \$445 million, \$268 million and \$104 million respectively. Corporate investors played a very strong role in VC investment in 2019, with corporate fintech investment reaching a new annual high of \$3.4 billion.

Fintechs that began with a focus on a niche product offering continued to broaden their range of services over 2019, with some moving from unregulated offerings to becoming more like traditional financial institutions. The increasing capital requirements associated with this shift, combined with the capital needed to fuel growth both product-wise and geographically, will likely continue to push deal sizes higher over the next year.

Digital banks setting their sights on global markets

UK-based digital banks showed their growing maturity, with many setting their sights on global expansion, including Revolut, N26, Starling, Tandem, Atom and others. While several are targeting the US market, a number of digital banks in the UK are also looking to countries such as Australia, Hong Kong (SAR) and Singapore, while Germany-based N26 is working to expand to Brazil. Following in the wake of these digital banks are a number of UK-based Software as a service (SaaS) fintech companies looking to expand their services into other jurisdictions as well.

One challenge with digital banks to date is that they have yet to move substantially beyond being a secondary account for customers. If they are going to become profitable, they will need to make this transition.

"Payments is going to be very hot over the next year in the UK. There will likely be more mega-deals like Worldpay focused on the payments space as companies look to acquire customers and data. We're also going to see payments firms looking to bolt-on open banking and data capabilities so that they can drive more success from mining their own data."



Anton Ruddenklau

Global Co-Leader of Fintech, KPMG International

Partner and Head of Digital & Innovation, Financial Services, KPMG in the UK

¹ <https://www.crowdfundinsider.com/2019/07/150095-fis-completes-acquisition-of-worldpay/>

Fintech investment in Europe soars, driven by Worldpay's acquisition by FIS (cont'd)

Worldpay deal leads to new record for fintech investment in the UK

Q3'19's Worldpay deal propelled the UK to a new record for annual fintech investment. The mega-acquisition highlighted the massive battle occurring in the payments space, not only in the UK but around the world. In the UK, the payments space is in the midst of a major shakeup with traditional banks, fintechs, tech companies, and others working to determine who owns customer relationships and distribution channels.

Open banking drove some activity in the fintech space in the UK, although actual implementation among traditional banks was minimal. In Q4'19, open banking startup Bud signed an agreement to work with HSBC to help frame and develop open banking opportunities to provide new services to HSBC's customers². On the blockchain front, the UK provided more clarity with respect to crypto assets and smart contracts in the fall, which has sparked some renewed interest in the space.

Quiet year for fintech activity in Ireland

Fintech activity in Ireland was relatively soft in 2019, although it did see a number of solid niche investments, including a \$85 million funding round by financial software company Fenengo³ and a \$30 million raise by student loan provider Future Finance, both in Q3'19⁴. Investment could heat up in 2020 as fintech companies that didn't need to raise funds in 2019 look for new funding rounds.

"Fintech investment in Ireland was somewhat muted this year, although there were a few standout deals, including Fenengo, Immedis and Future Finance. Google's recent acquisition of Dublin-based Pointy also created quite a bit of excitement within Ireland's fintech ecosystem. This could help drive some momentum heading into 2020."



Anna Scally
Partner and Fintech Lead,
KPMG in Ireland

Solid activity in Germany particularly in Q3'19

Fintech investment in Germany was strong in 2019, particularly in Q3'19, led by N26's \$470 million raise. M&A activity was also robust, with a number of maturing fintechs starting to acquire smaller startups in order to expand their breadth of offerings. For example, company builder finleap acquires SME banking Penta in April, online lender Creditsshelf acquired Valendo in September, while savings marketplace Raisin acquired pension products company Fairr.de in August⁵.

Interest in regtech continued to grow in Germany during 2019, particularly related to risk management. Insurtech also gained traction as the insurtech ecosystem continued to expand and grow. Insurtech hubs and innovation labs Insurtech Hub Munich and InsurLab Germany continued to be instrumental in driving this growth.

"Open banking is a huge topic in Germany. We now have a number of white label banks with bank licenses, such as solarisBank, with APIs that can be used by others. This opening of the banking system is going to be increasingly disruptive for the established banking model. We're going to see established banks thinking more about how they can use these APIs to support new business models. The future will belong to those that are very agile and customer-centric."



Dr. Benjamin Jetter
Manager, Financial Services, Innovate Consulting,
KPMG in Germany

² <https://news.thisisbud.com/open-banking/bud-and-hsbc-sign-global-partnership>

³ <https://www.irishtimes.com/business/technology/irish-fintech-company-fenengo-raises-66m-1.3959440>

⁴ <https://www.crunchbase.com/organization/future-finance#section-lists-featuring-this-company>

⁵ <https://www.crowdfundinsider.com/2019/09/151731-p2p-lender-creditsshelf-to-acquire-sme-finance-provider-valendo/>

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Fintech investment in Europe soars, driven by Worldpay's acquisition by FIS (cont'd)

Israel sees banner year for fintech investment, driven by record-breaking Q4'19

Israel saw strong interest from fintech investors throughout 2019, with record-breaking levels of investment despite a declining number of deals. Partnerships were a key focus area.

Given its strong R&D and cybersecurity ecosystems, fintech-focused cybersecurity solutions were a key interest in Israel, in addition to insurtech offerings. There was also an increasing interest for AI-driven solutions — like audit analytics and automation — during the year. Talent management solutions are expected to become an area of focus in Israel as financial organizations look to manage multi-generational workforces with diverse skill sets.

“Many countries around the world are moving toward opening banking; Israel is no exception. In Q4'19, the Bank of Israel published guidelines to implement an open banking standard. Knowing that it is coming, the big banks are also grappling with the ‘how to’ — trying to answer key questions like ‘What’s the right business model?’, ‘How can we make money?’ and ‘How to address the risk management and privacy issues and keep the trust of our customers?’”



Meital Raviv

Head of Fintech & Innovation, Financial Services,
KPMG in Israel

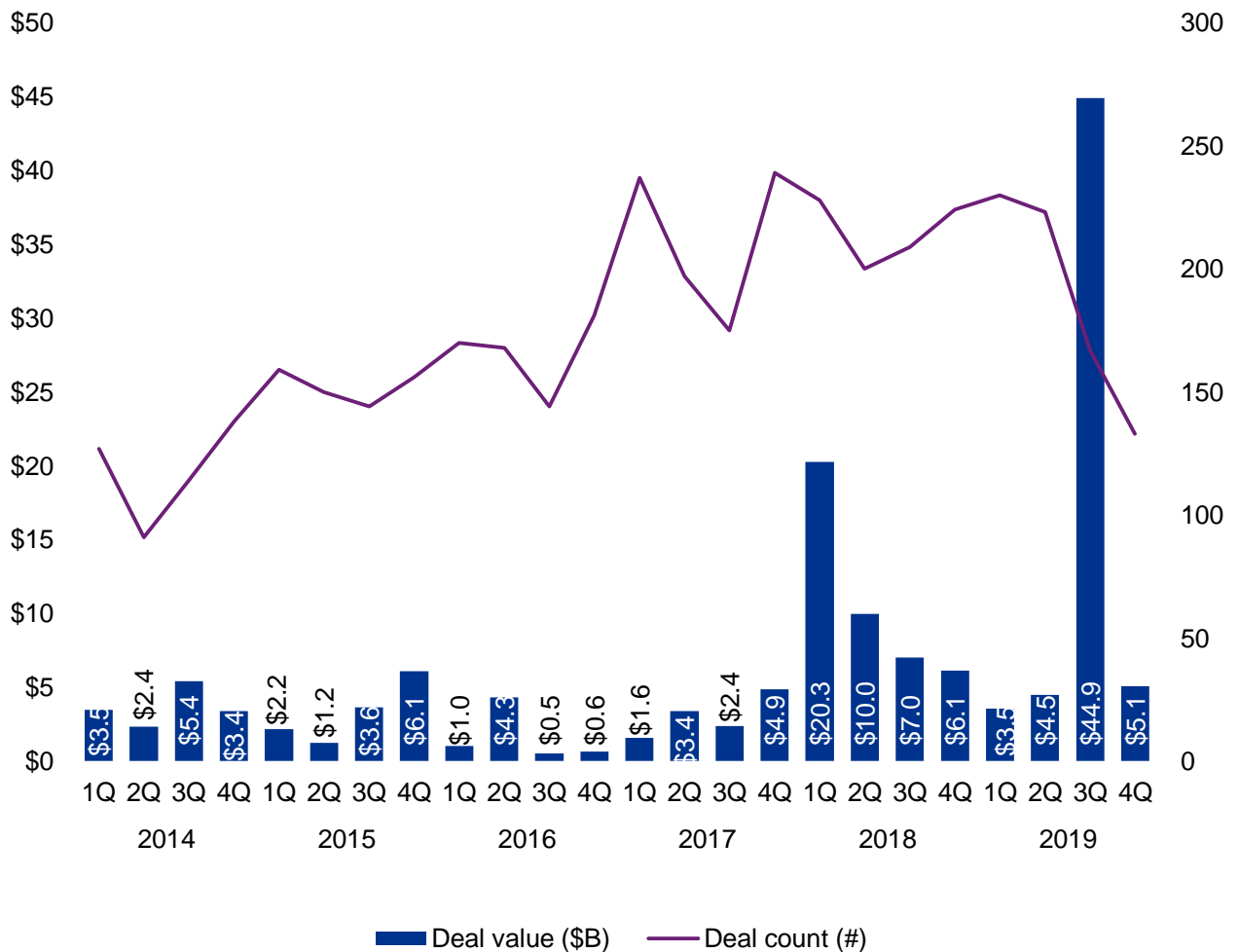
Trends to watch in Europe

Looking ahead to 2020, fintech investment is expected to remain robust in Europe, with maturing fintechs able to attract larger deals. Payments and digital banking will continue to be very hot areas of investment, while investment in areas like insurtech, regtech, B2B solutions and wealthtech are expected to grow.

In the UK, fintech-focused cybersecurity is also expected to be increasingly attractive to investors in 2020, with secure technologies and digital ID efforts gaining more traction over time. In Germany, fintechs with a sustainability focus could also see increasing investment as both traditional banks and other market players look to provide more targeted sustainability products to their customers.

A record Q3 even as volume slides

Total investment activity (VC, PE and M&A) in fintech in Europe 2014–Q4 2019

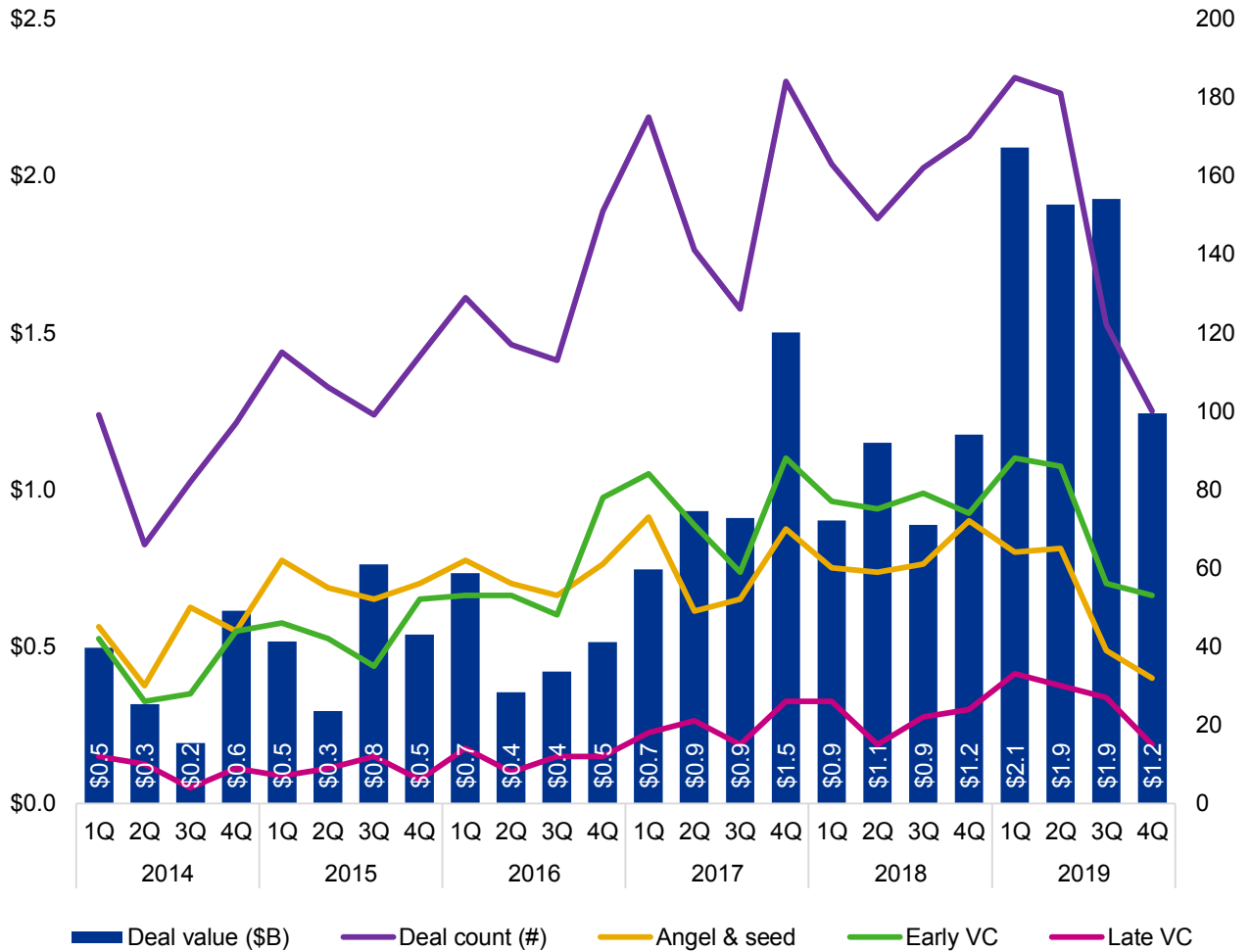


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The quarter-over-quarter downturn in fintech volume in Europe is doubtless affected by private market data collection lags, but the fact it is sustained is somewhat more telling — it should be noted volume is still returning to levels closer to historical averages. Worldpay’s mammoth acquisition in summer 2019 helped boost yearly totals to a significant degree.

VC set new highs for most of 2019

Venture investment in fintech companies in Europe 2014–Q4 2019

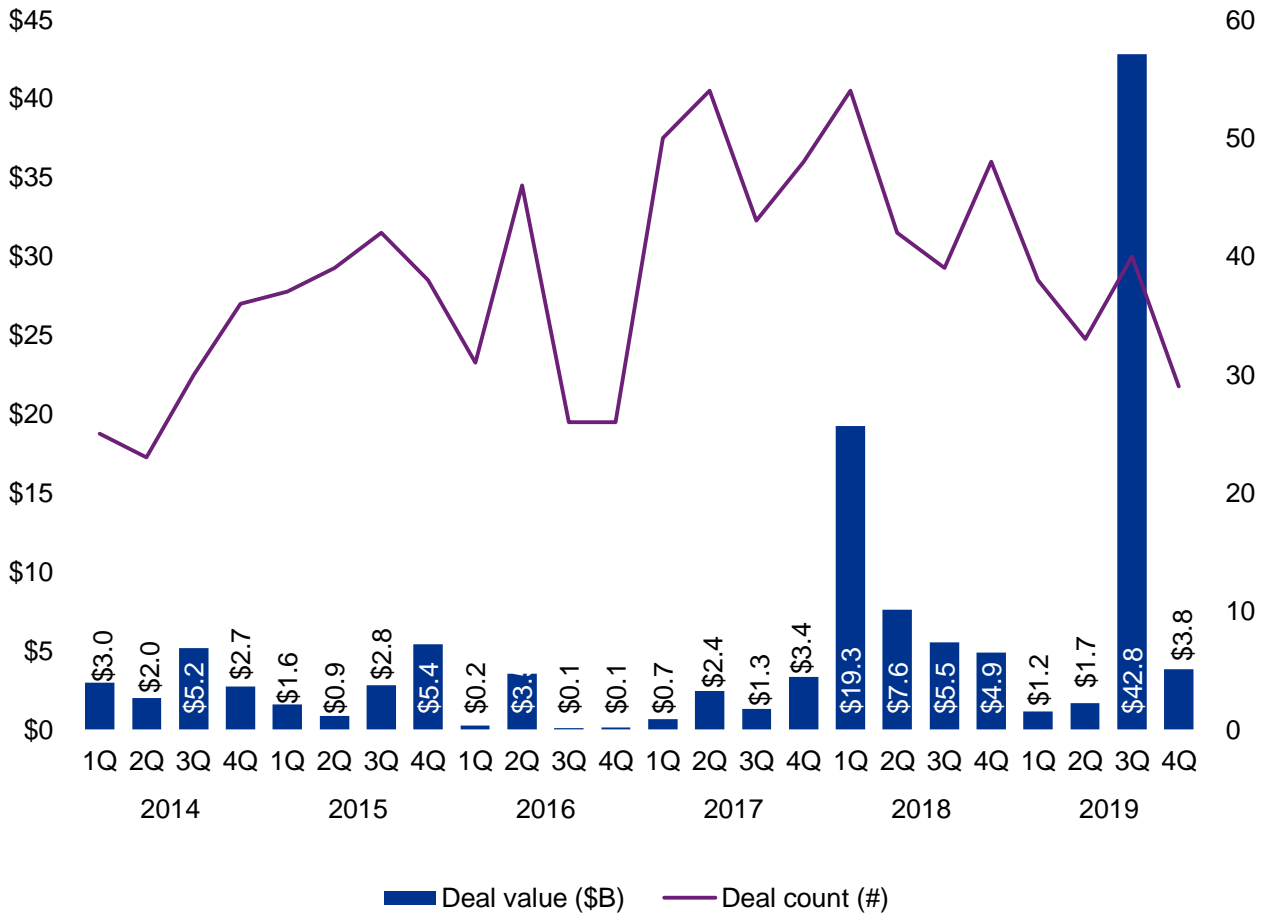


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

In line with the broader European venture scene, even as volume has deflated somewhat quarter over quarter, VC invested set new highs. The first half of the year even saw some significant spikes in deal volume, primarily driven by an early-stage surge into newer fintech sub-segments. The end result was a record year for VC invested across Europe in fintech, with an unprecedented stretch for three quarters straight in terms of aggregate capital collected by fintech businesses.

M&A sees a record Q3 due to Worldpay

M&A activity in fintech in Europe 2014–Q4 2019

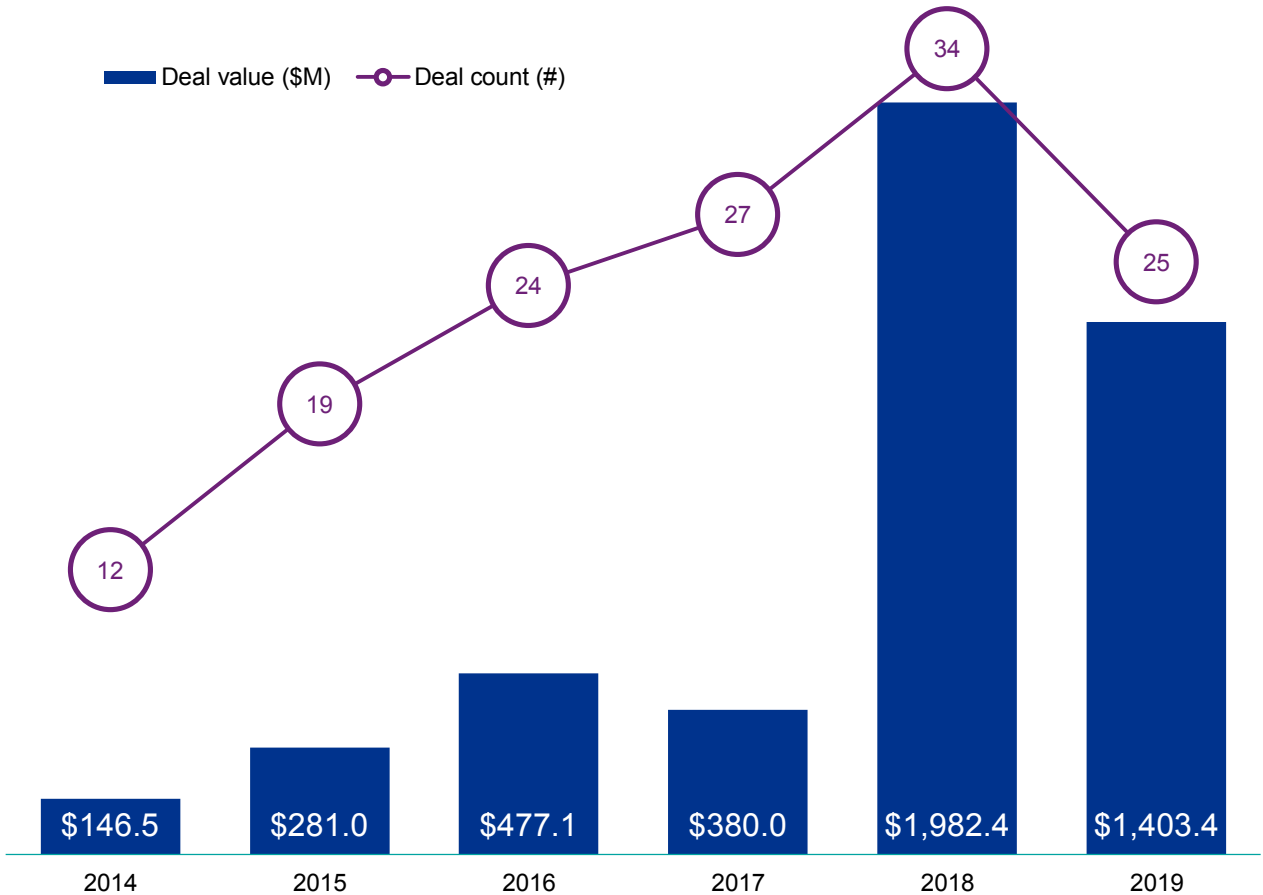


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

After prolonged regulatory reviews, Worldpay's mammoth \$42.5 billion acquisition finally closed, leading to a record Q3 unlikely to be surpassed for some time. Since 2018, M&A volume has trended downward by and large to return to historical means — it is likely that the end of 2019 saw a bottoming out and that activity may enter a more moderate plateau of volume as consolidation picks up in other sub-segments that are slowly maturing.

PE investors still shell out significant sums

PE growth investment activity in fintech in Europe 2014–2019

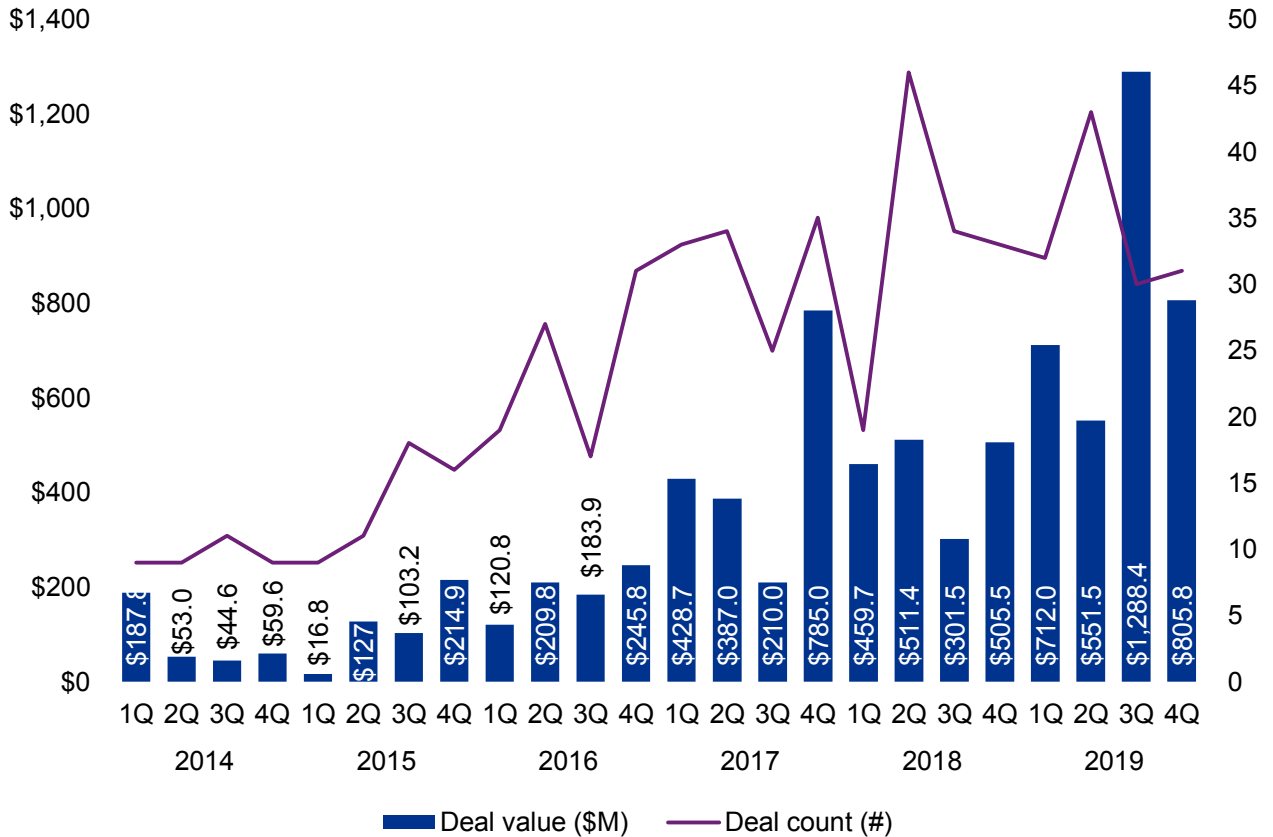


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Over the past several years, PE investment in fintech has enjoyed a slow but steady rise in Europe as investment theses have diversified into technology overall. Eager to gain exposure to fast-growing fintech startups in categories such as payments and lending, PE firms are willing to back mature, later-stage companies that have the most demonstrated success.

CVCs help set a new record

Venture activity in fintech in Europe with corporate participation 2014–2019

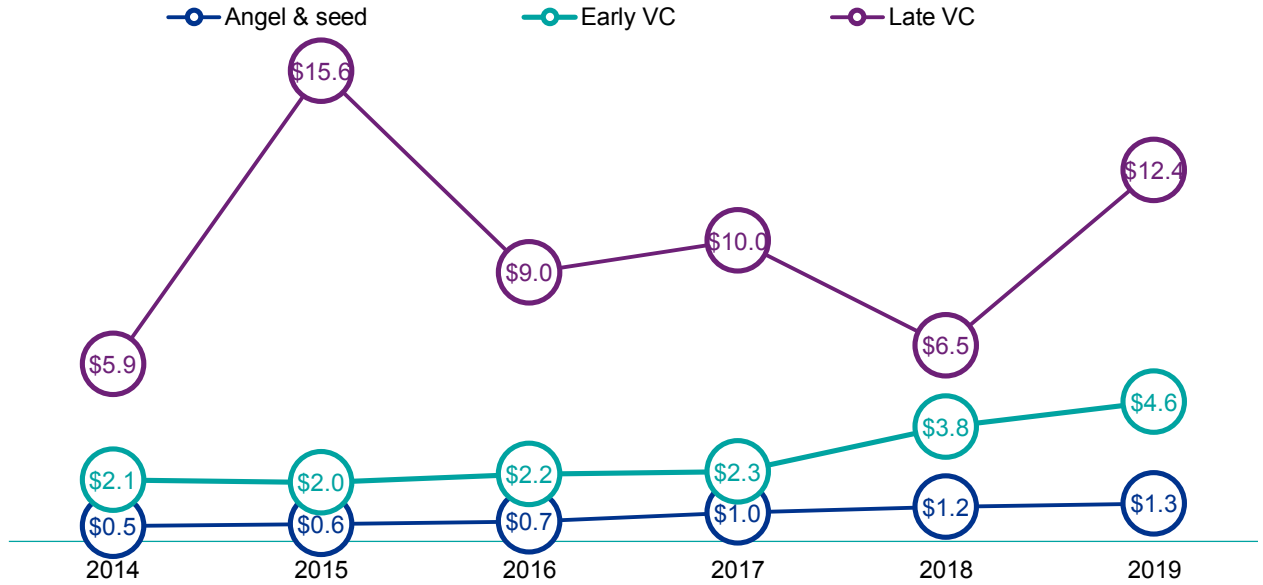


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

As the European venture scene benefits significantly from corporate participation and direct sole investment, fintech is no exception. 2019 saw only the latest crest of a steadily rising swell of activity on the part of deal value and volume in which CVCs took part, hitting a mammoth \$3.4 billion as more late-stage opportunities became available for corporates to back.

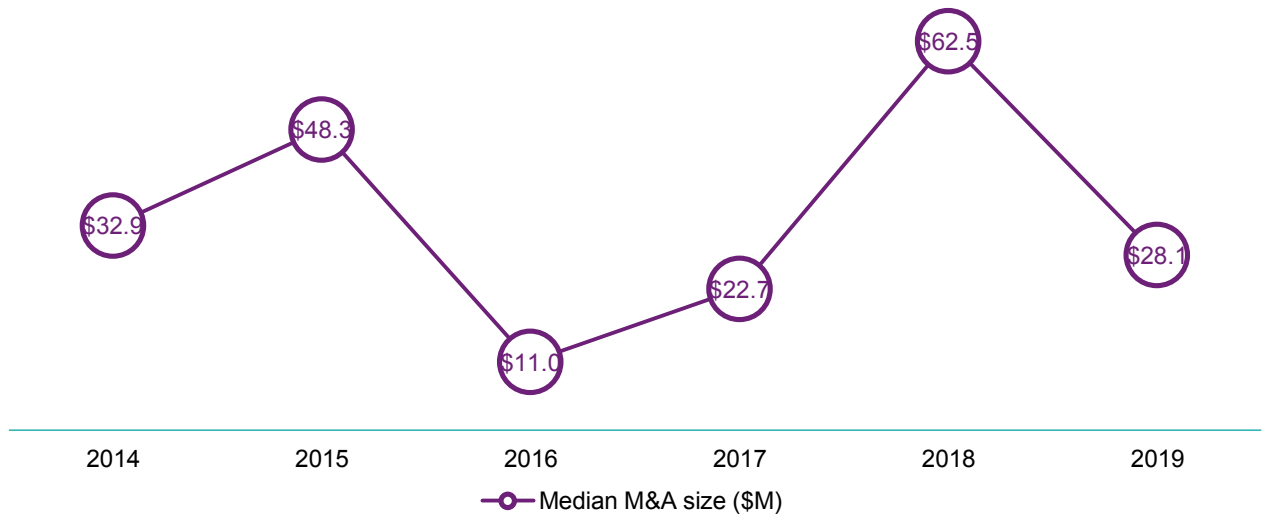
M&A dives as VC at all stages resurges

Median venture financing size (\$M) by stage in fintech in Europe 2014–2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Median M&A size (\$M) in fintech in Europe 2014–2019

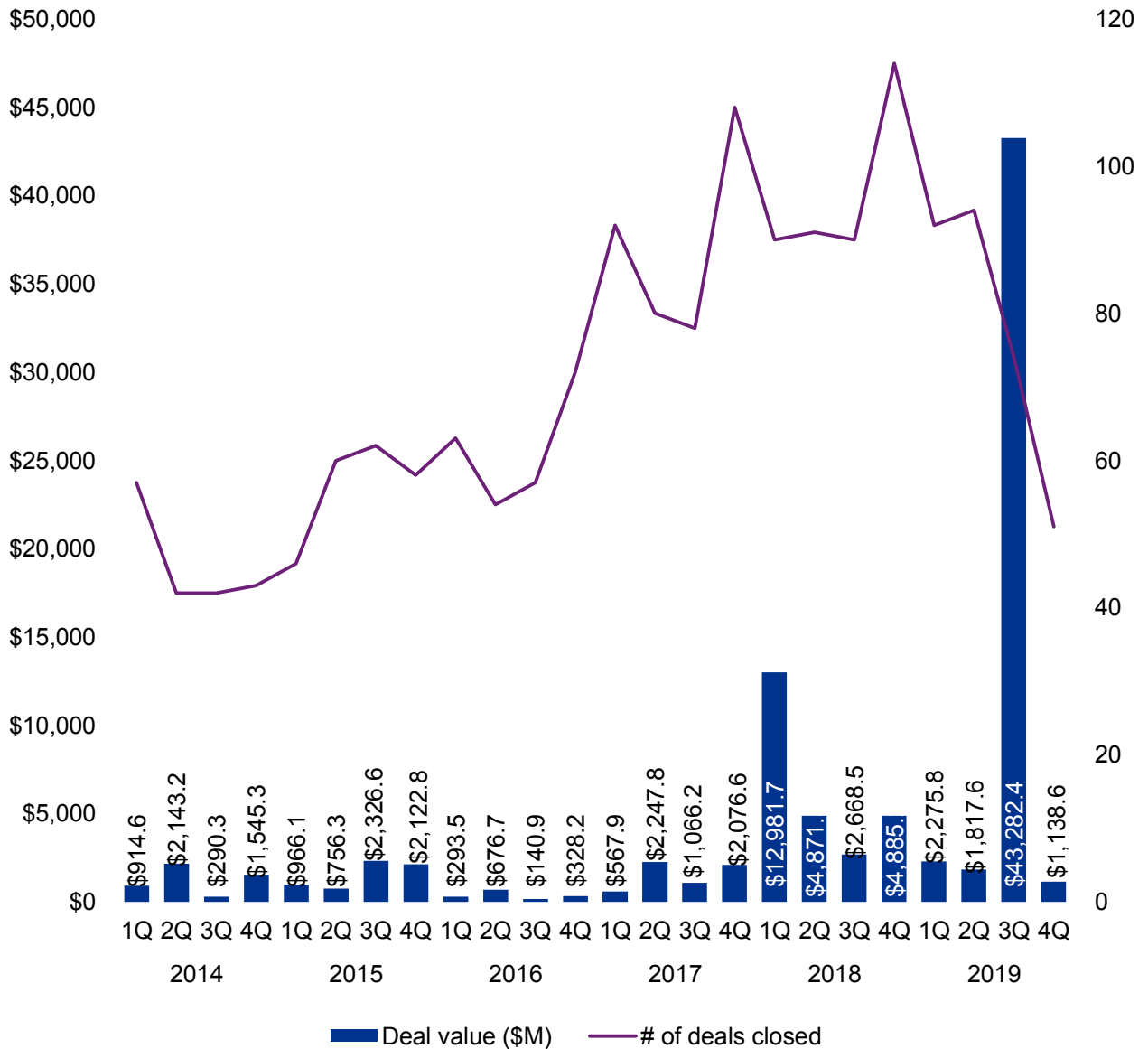


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Worldpay mega-deal leads to UK record

Total investment activity (VC, PE and M&A) in fintech in the United Kingdom 2014–Q4 2019

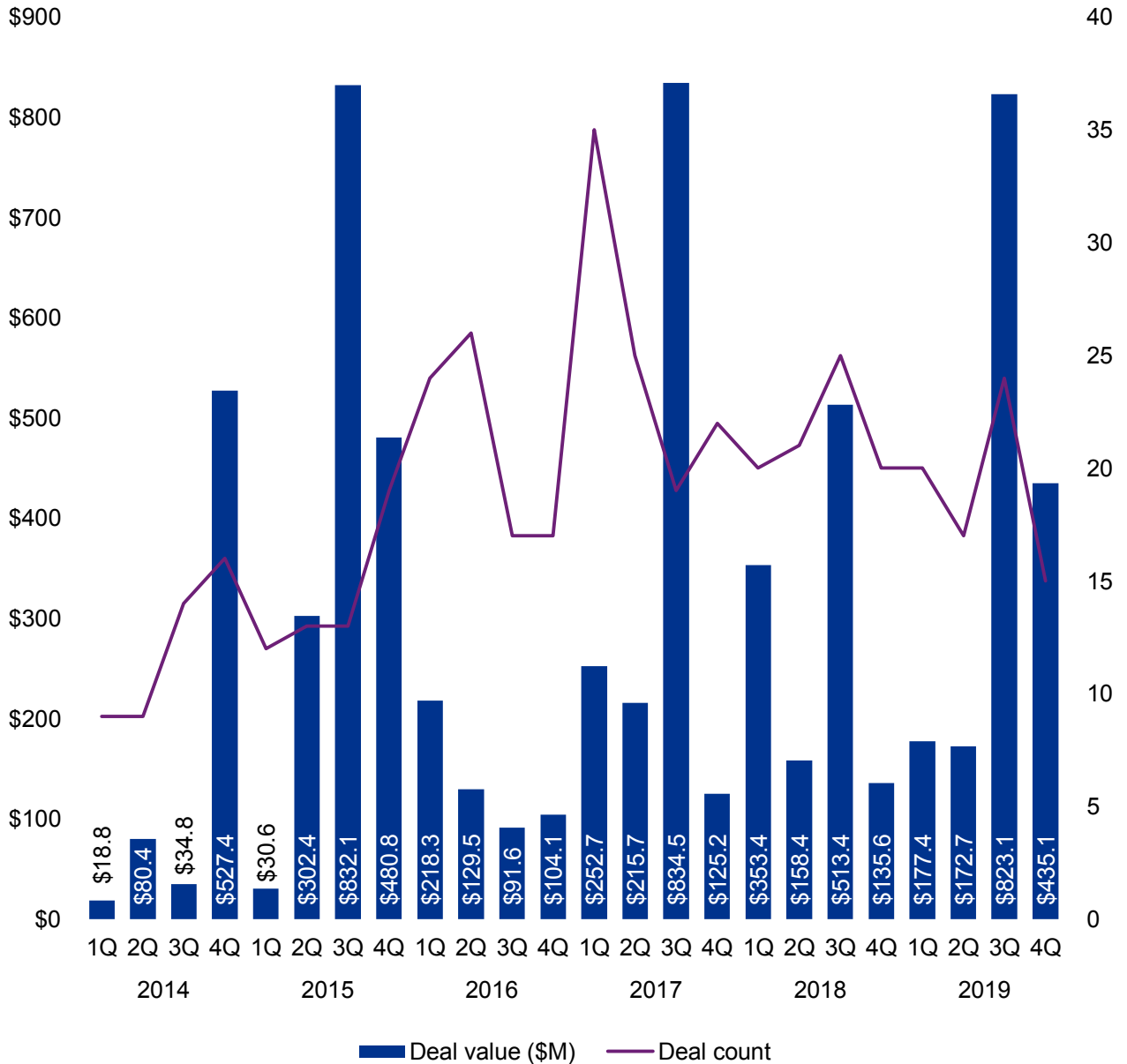


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Q3 nearly sets a new record

Total investment activity (VC, PE and M&A) in fintech in Germany 2014–Q4 2019



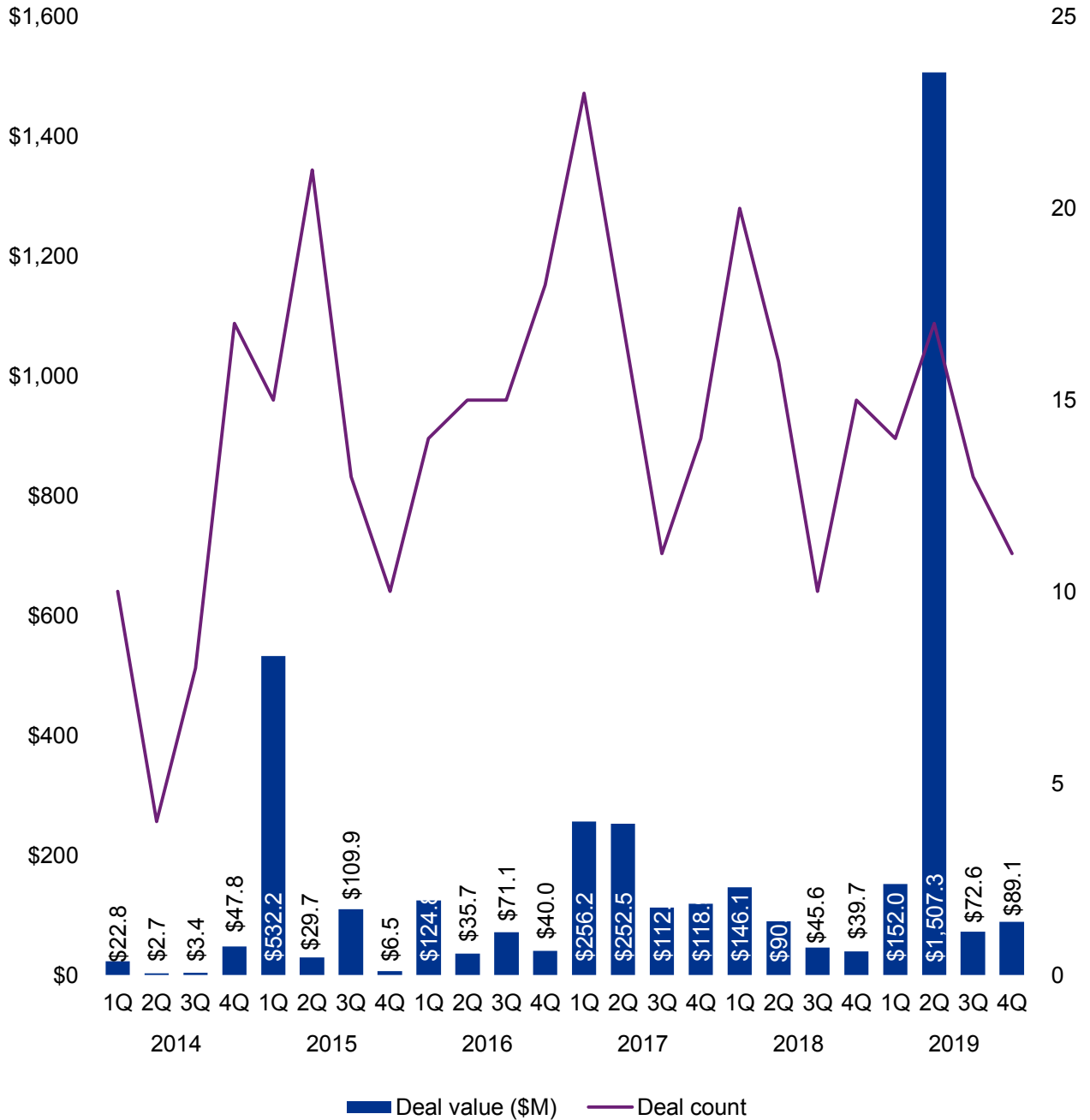
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Mega-deals lead to record year for France

Total investment activity (VC, PE and M&A) in fintech in France 2014–Q4 2019



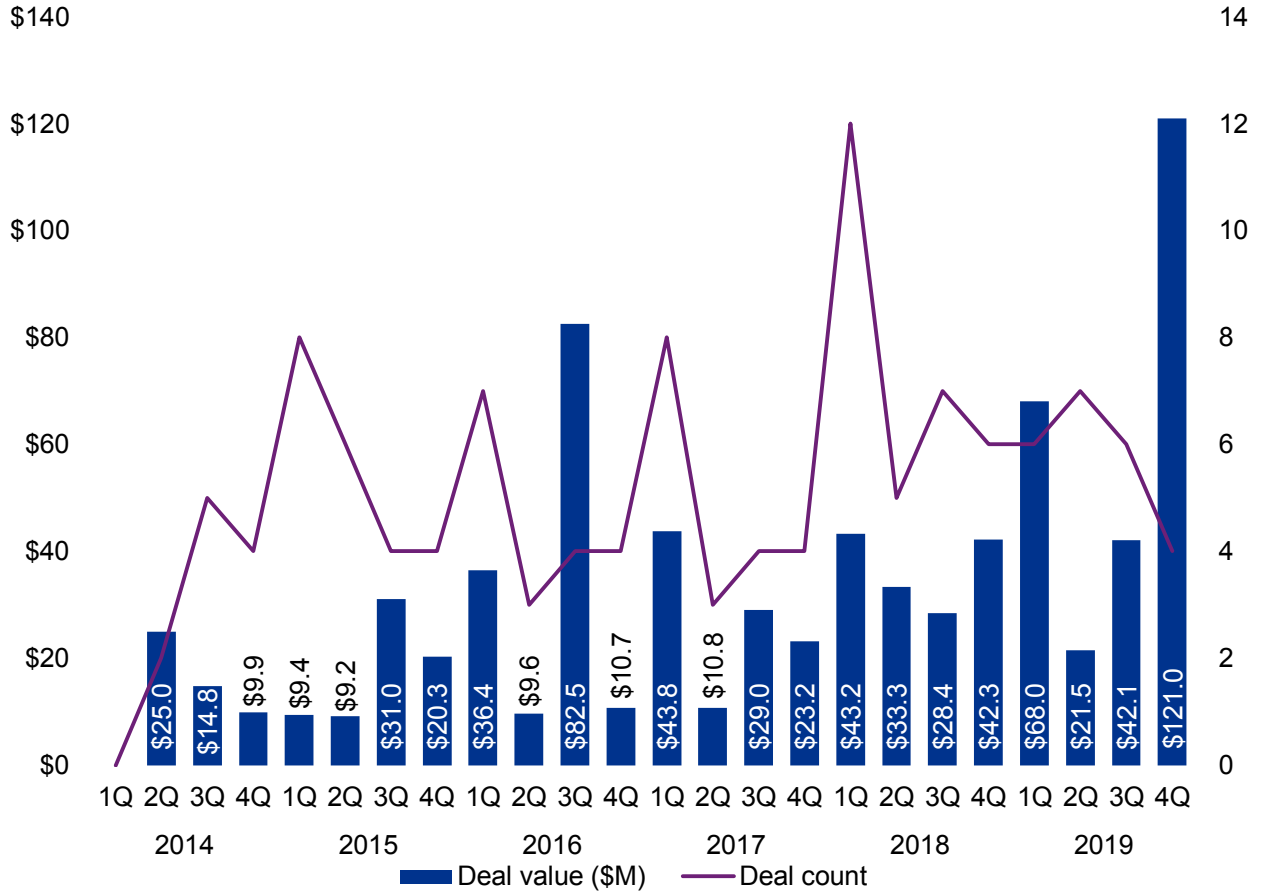
Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

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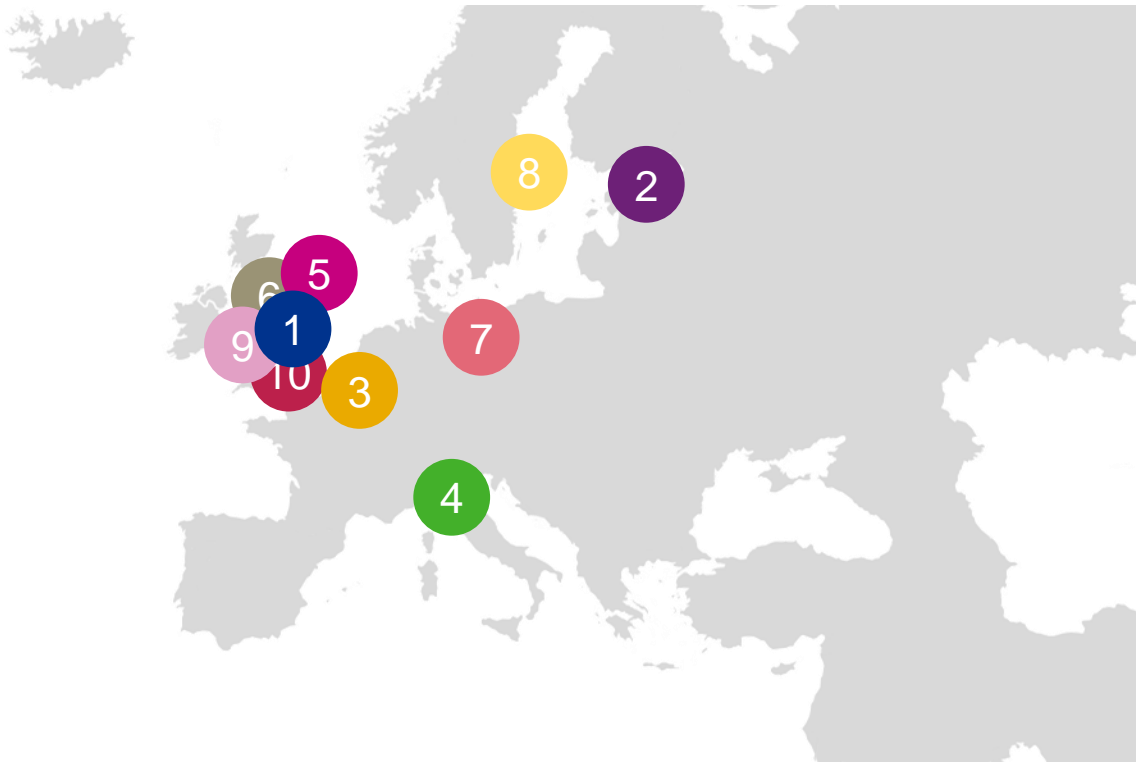
Deal-making slows as 2019 ends strong

Total investment activity (VC, PE and M&A) in fintech in Israel 2014–Q4 2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Top 10 European fintech deals in 2019



- | | |
|---|--|
| <p>1 Worldpay — \$42.5B, London, UK
Payments/transactions
<i>M&A</i></p> | <p>6 World First UK — \$717M, London, UK
Payments/transactions
<i>M&A</i></p> |
| <p>2 AliExchange — \$2.1B, Tallinn, Estonia
Capital markets/cryptocurrency
<i>M&A</i></p> | <p>7 N26 — \$470M, Berlin, Germany
Lending
<i>Series A</i></p> |
| <p>3 eFront (France) — \$1.3B, Paris, France
Institutional/B2B
<i>Buyout</i></p> | <p>8 Klarna — \$460M, Stockholm, Sweden
Payments/transactions
<i>Late-stage VC</i></p> |
| <p>4 SIA (Milan) — \$894.8M, Milan, Italy
Institutional/B2B
<i>Buyout</i></p> | <p>9 Ebury — \$445M, London, UK
Payments/transactions
<i>M&A</i></p> |
| <p>5 Greensill Capital — \$800M, London, UK
Institutional/B2B
<i>PE growth</i></p> | <p>10 OakNorth — \$440M, London, UK
Lending
<i>Late-stage VC</i></p> |

Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

In 2019, fintech companies in Asia Pacific received

\$12.9B

across

547 deals



Fintech investment in the Asia Pacific region strengthens in second half of 2019

After falling to an eight-quarter low of \$2.3 billion in Q3'19, total fintech investment in the Asia Pacific region rebounded quite strongly to end the year, with \$4.1 billion in investment during Q4'19. While annual fintech investment fell well shy of 2018's record-breaking year — which included a massive \$14 billion raise by Ant Financial, total annual fintech investment in the Asia Pacific region remained relatively strong compared to all previous years.

Fintech investment spanning across Asia Pacific

The Asia Pacific region benefited from strong fintech investment in 2019, with the largest deals occurring across five different countries, including Australia, China, India, South Korea and Vietnam. While China's direct fintech investment was soft in 2019 following a massive 2018, other countries showed strong growth. India, in particular, set a new annual record high for fintech investment. Investment in Singapore and Australia was also robust.

China's fintech market evolving and maturing

After a massive 2018, fintech investment in China took a breather through most of 2019. Despite the decline in total investment, however, China's fintech market continued to see substantial activity. China's large technology giants, which are the dominant leaders in the payments space, continued to focus on growing their reach geographically, making investments or plays well outside of Greater China. Ant Financial, for example, submitted an application for a digital banking license in Singapore late in 2019, while Tencent made a number of significant investments in fintechs in other regions throughout the year, including Ualá in Argentina¹.

With the more mature areas of fintech dominated by these big players, investors in China began to turn their attention to up-and-coming areas of fintech. Regtech, for example, has become more attractive area to VC investors in China, particularly as it relates to using artificial intelligence and machine learning to assess risks and identify fraud. China-based investors are also interested in fintechs using these technologies more broadly to improve the operations of banks and financial institutions (e.g. improve operational efficiencies, generate and analyze data) and to support wealth management.

China issues 3-year plan to guide fintech development

During Q3'19, the People's Bank of China released a 3-year plan to support the development of the fintech industry in the country². Since then, there has already been a number of moves focused on implementation. For example, a fintech sandbox is in development, with testing currently being conducted in Beijing³. It is expected that this plan will help fuel future investment in fintech, particularly in key areas like risk management, cybersecurity, big data, artificial intelligence, distributed databases and authentication⁴.

“China's central bank and other authority bodies are working to move fintech in the country to '2nd half' as part of their three-year fintech development plan. We anticipate an increased regulation and guidance for the industry and an enhanced infrastructure to support fintech development. For example, sandbox mechanism is being designed and may soon roll out to test the concept of different fintech to make sure they comply with regulations and will achieve the desired results before they enter the market.”



Chris Wang
Partner, Head of Fintech,
KPMG China

¹ <https://techcrunch.com/2019/11/25/argentine-fintech-uala-raises-150m-led-by-tencent-and-softbank/>

² <http://www.pbc.gov.cn/en/3688110/3688172/3880801/index.html>

³ <https://www.yicai.com/news/pboc-launches-regulatory-sandbox-pilot-to-foster-beijing-fintech-innovation>

⁴ <https://www.caixinglobal.com/2019-08-24/china-issues-3-year-fintech-development-plan-101454461.html>

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

Fintech investment in the Asia Pacific region strengthens in second half of 2019 (cont'd)

Alibaba's listing a big win for Hong Kong (SAR) despite economic slowdown

Despite a recession and ongoing political unrest, the fintech market in Hong Kong (SAR) saw some resilience in Q4'19. In particular, the Hong Kong Stock Exchange (HKEX) was the busiest listing venue of 2019. It also saw the largest listing of the year in Alibaba's secondary listing in November which raised \$11.2 billion, well above Uber's \$8.1 billion IPO in May.

Earlier in 2019, Hong Kong (SAR) issued its first eight digital banking licenses. Of the licensees, ZhongAn was the first to launch a digital bank pilot, although others are expected to follow suit in 2020. As the licensees continue to formulate their digital bank offerings, Hong Kong (SAR) could see an upswing in investments in related areas, like KYC, regtech, digital onboarding and communications, and digital banking infrastructure. The issuance of digital banking licenses has also spurred traditional banks to improve their own digital offerings and digital experience.

"We're starting to see ecosystems evolving with respect to digital banks. Partners are coming together to get digital banking licenses. Once they have their pilot projects underway, and they have proven their technology both internally and to the Hong Kong Monetary Authority, we'll start to see them leveraging those partnerships more deeply — integrating banking services with other offerings like travel bookings or insurance to provide their customers with a seamless experience."



Avril Rae
Head of Fintech, Hong Kong (SAR),
KPMG China

Fintech investment in Singapore remains strong year over year

Fintech investment in Singapore remained relatively strong in 2019, despite a shrinking number of fintech deals. Singapore's announcement that it would issue a number of digital banking licenses garnered significant attention, although it could have delayed some fundraising activity as companies focused on submitting digital banking licenses applications instead.

Once the digital licenses have been issued, Singapore could see a new wave of fundraising activity as successful companies look to build out their digital banks. One of the key differentiators with Singapore's digital banking license is the fact that the Monetary Authority of Singapore (MAS) is paying particular attention to companies that look at banking in a totally new way. It would use different tools to reach customers or to provide services and new products to underserved customers and segments.

"They very concept of fintech is evolving right now. You see insurance-related companies issuing credit cards. You see technology companies applying for digital banking licenses. The lines between insurance, banking and technology are blurred, with the real focus being the customer."



Tek Yew Chia
Head of Financial Services Advisory,
KPMG in Singapore

Fintech investment in the Asia Pacific region strengthens in second half of 2019 (cont'd)

India closes out 2019 with a record-setting quarter of fintech investment

Total fintech investment in India skyrocketed to a new high in 2019, propelled by a record Q4'19 which saw \$2.3 billion in fintech investment in the country. Payments continued to be the hottest areas of the fintech market in India, evidenced by Paytm's \$1.7 billion VC round in November. Insurance was also a hot ticket in 2019, with raises by PolicyBazaar (\$152 million) and Acko General Insurance (\$65 million). Fintech is expected to remain hot for the foreseeable future given the country's large unbanked and underbanked population.

Fintech investment in Australia continues to grow

Fintech investment in Australia remained robust compared to historical norms in Q3'19 and Q4'19, although well-shy of the record \$1.17 billion investment seen in Q2'19. The country has seen increasing interest in fintech and digital banking in particular since the regulator changed its licensing regime. Since 2018, the country has seen a number of new digital banks take off, including 86 400, Judo Bank, Xinja and Volt Bank. There has also been increasing activity from traditional banks both domestically and abroad. For example, in 2019, Commonwealth Bank announced an investment in Sweden-based Klarna and plans to distribute its capabilities in the Australian market. Other financial institutions have announced similar partnerships and fintech investments — a trend expected to continue for the foreseeable future.

"It's been a record year for fintech investment in Australia. We've seen some strong IPO activity from a diverse range of companies, like online lender Prospa, B2B fintech Tyro Payments, and consumer credit business MoneyMe. This sends a great message to investors. But it's not just fintechs driving change here. We're also seeing the big Australia banks invest in fintechs both domestically and internationally in order to move their own capabilities forward."



Ian Pollari

Global Co-Leader of Fintech, KPMG International
Partner and National Banking Sector Leader, KPMG Australia

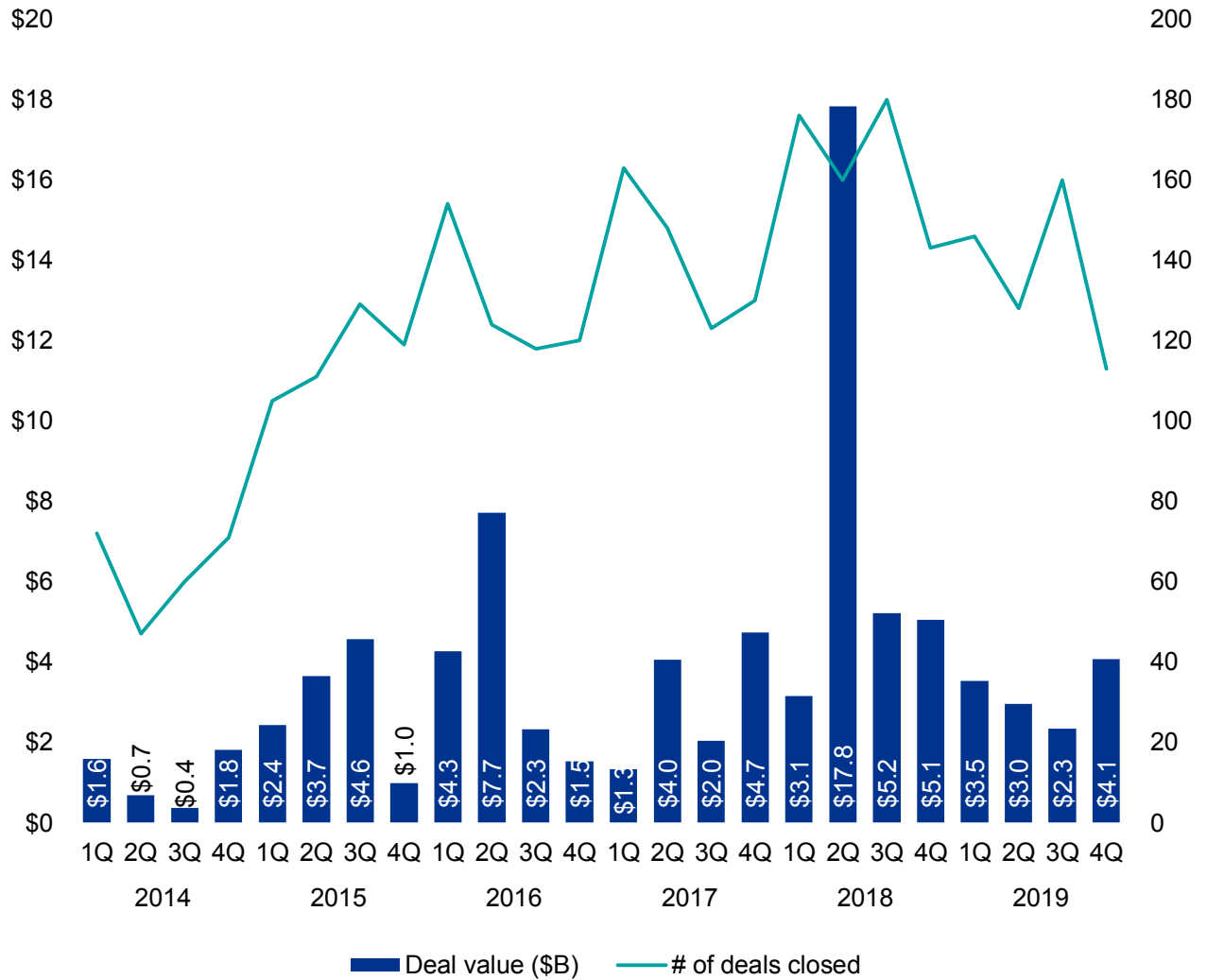
Trends to watch in Asia Pacific

Digital banking will likely continue to be a very hot area of investment in the Asia Pacific region in 2020, given that additional jurisdictions have shown intent to follow in the footsteps of Hong Kong (SAR), Australia and Singapore in terms of issuing digital banking licenses.

With the successful secondary listing of Alibaba in Hong Kong (SAR), other mature fintechs in China could look to the HKEX for their IPO over the next year. On the investment front, given China's growing population, there is expected to be increasing interest in insurance products which is likely to help propel investment in insurtech offerings. Insurtech is also expected to be a growing area of investment in India.

Fintech investment remains variable if strong

Total investment activity (VC, PE and M&A) in fintech in Asia Pacific 2014–Q4 2019

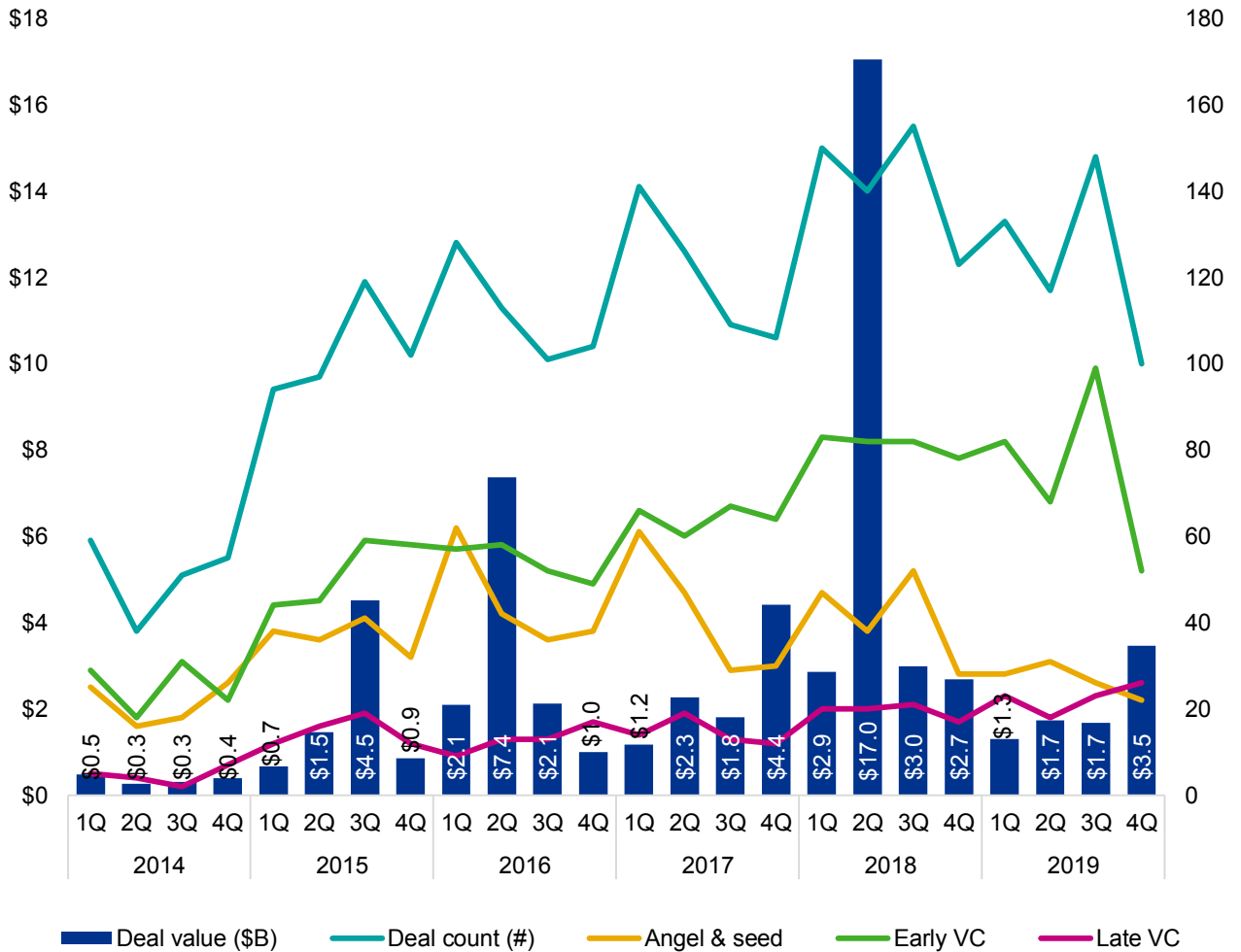


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019. Note: Please refer to the methodology page at the end of the report for any changes between this edition of the Pulse of Fintech and prior editions.

As noted in the prior edition of the Pulse of Fintech, private markets data does tend to lag, so the downturn in deal volume may not be quite as sharp as it appears currently. Aggregate deal value remained on the slightly higher historical end in a promising sign, however.

VC downturn is behind overall investment decline

Venture investment in fintech in Asia Pacific 2014–Q4 2019

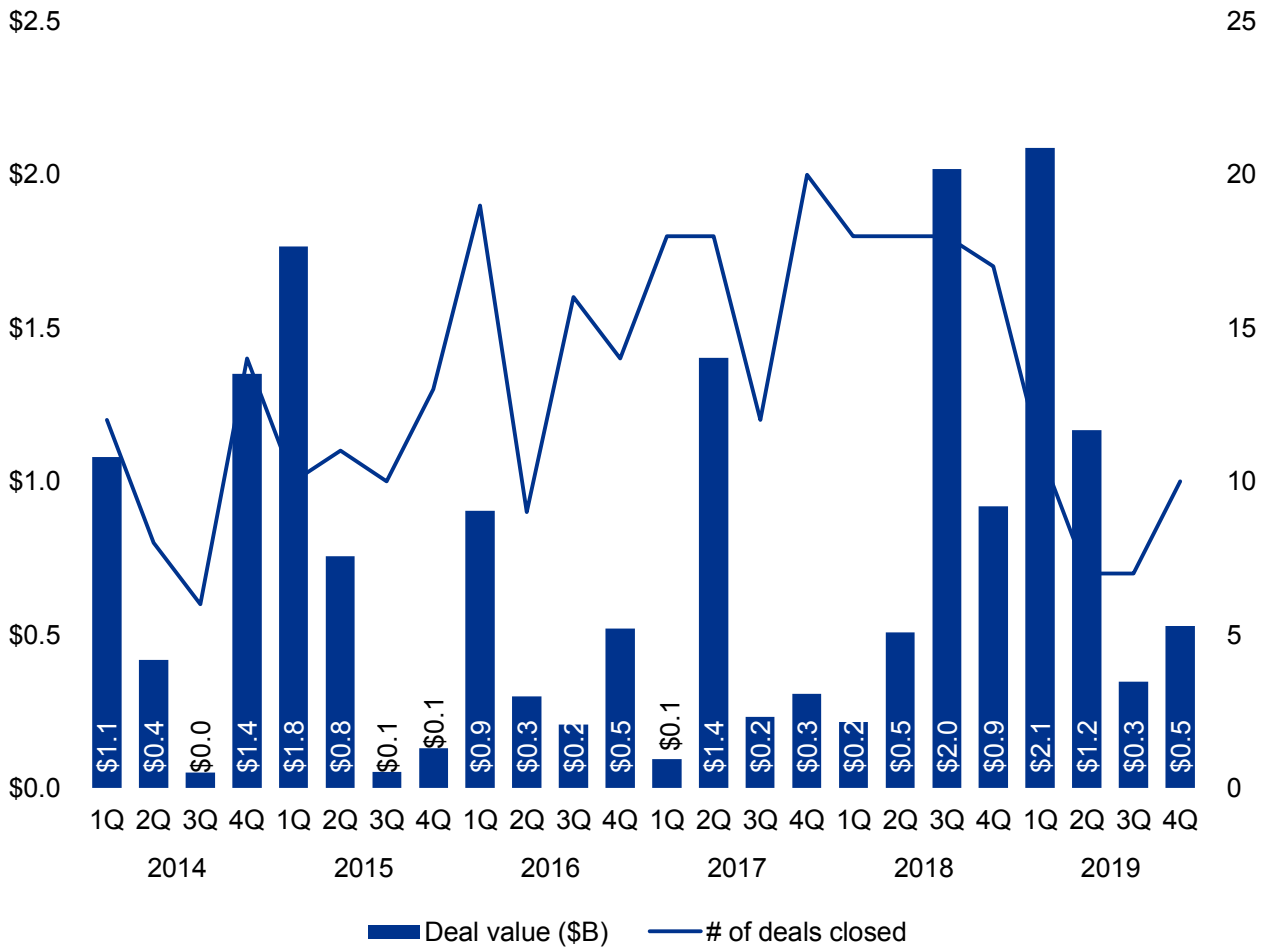


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

The Asia-Pacific venture ecosystem saw a sharp contraction — largely driven by China — proceed throughout 2019, thus the variability in fintech is of little surprise. The severity of the drop in the final quarter of 2019 is likely to adjust upwards as additional, currently undisclosed data is collected.

M&A value surges as volume remains subdued

M&A activity in fintech in Asia Pacific 2014–Q4 2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Once again, it is clear that the fintech scene in Asia Pacific is still maturing overall and still isn't quite as developed as other regions, as consolidation is still kicking in. As financial services and even tech giants already dominate key fintech sub-segments, there is not as much opportunity for major consolidation, although a handful of such deals did close in 2019, leading to record quarters for aggregate value.

PE investment remains volatile in 2019

PE growth investment activity in fintech in Asia Pacific 2014–2019

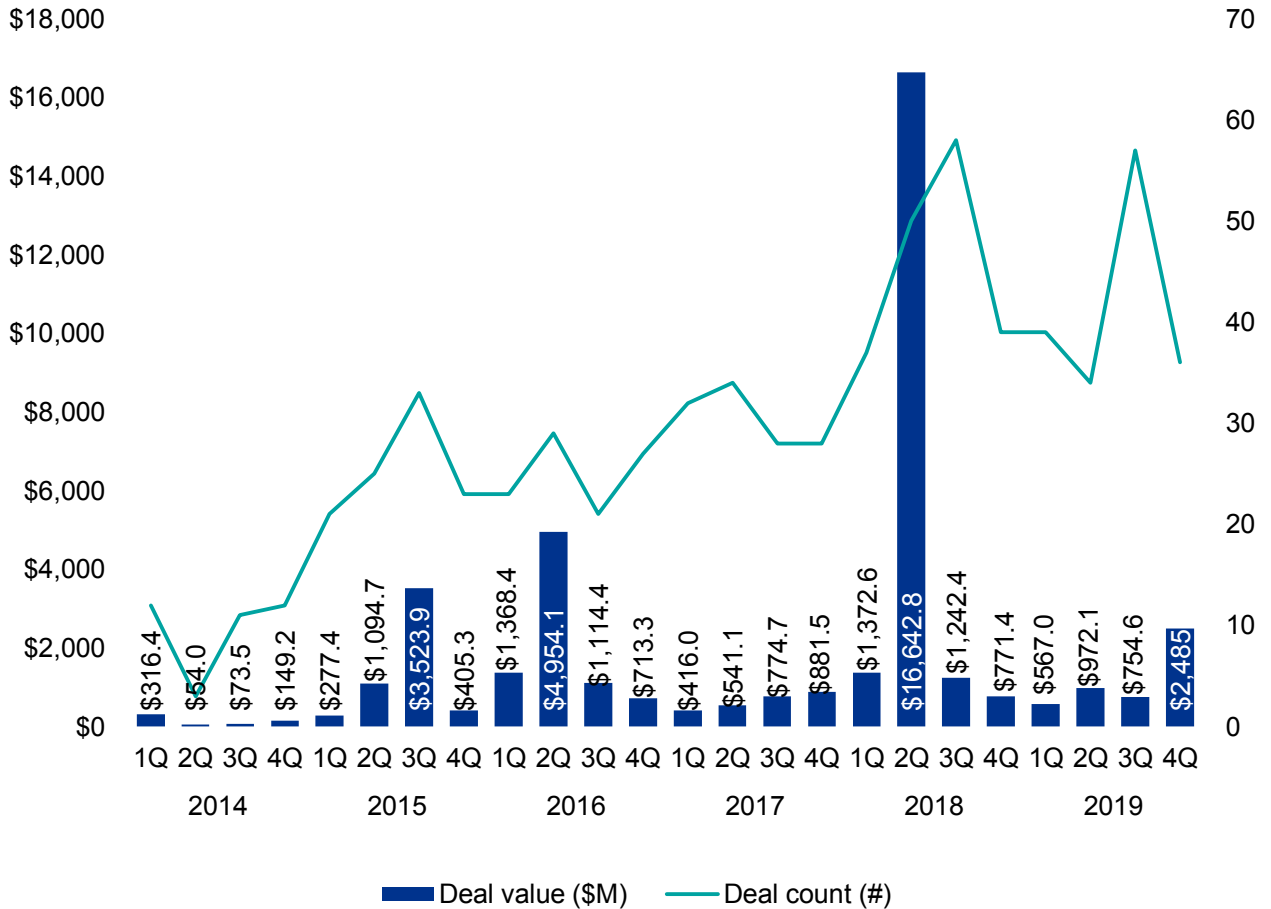


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

PE firms closed deals overall at a slower pace within the region, likely dissuaded by concerns around retaliatory trade wars, potential slowing economic growth and other concerns. Fintech was also hard hit by the decline in volume, leading to significant volatility.

CVCs remain variable in participation

Venture capital activity in fintech in Asia Pacific with corporate participation 2014–Q4 2019

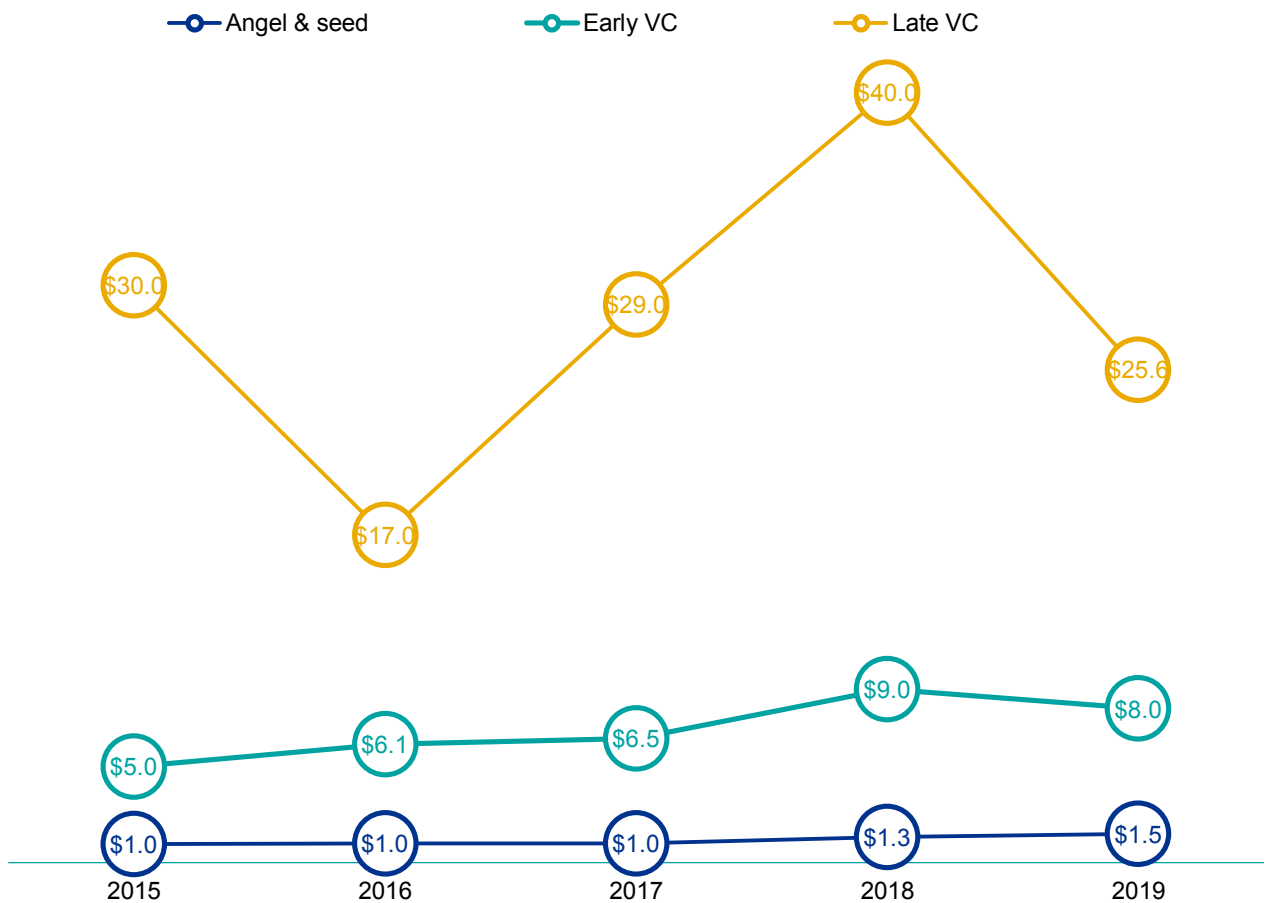


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Corporate players are critical to the budding Asia-Pacific fintech ecosystem, particularly within the realm of VC. Their significant variability in 2019 helps explain some of the decline in VC volume, even if Q4 was one of the highest quarters on record for aggregate capital invested with corporate participation. That only speaks to their criticality even more.

2019 sees significant plunge at late stage

Median venture financing size (\$M) by stage in fintech in Asia Pacific 2015–2019

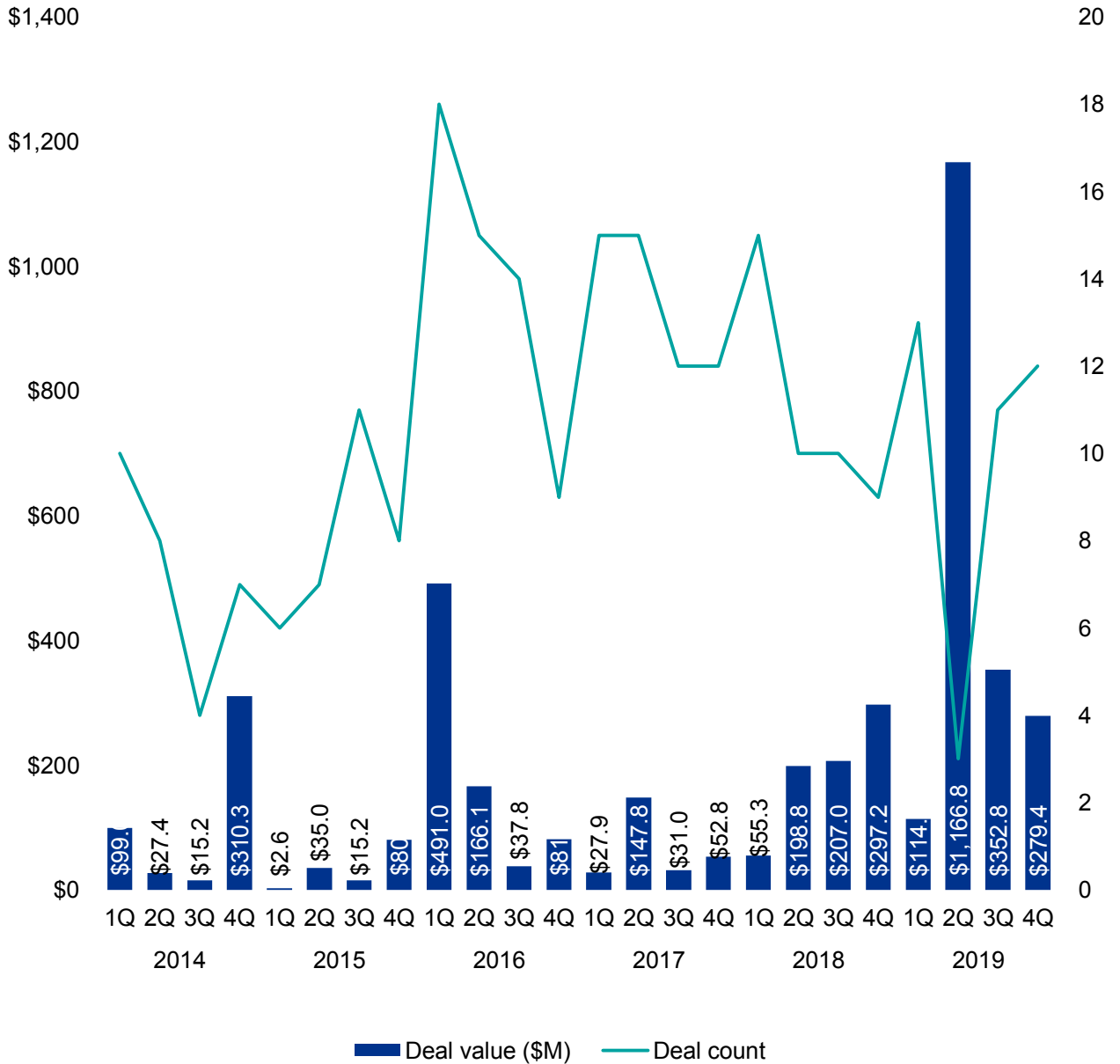


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Gradual inflation for even median figures also likely took a toll on the rate of VC activity in the Asia-Pacific venture ecosystem after the heights of 2018, in which medians normalized back to historical levels. All in all, figures held steady even as volume slid somewhat, signaling ongoing capital availability to the best-placed startups across the regional fintech ecosystem.

Judo Capital & others lead to surge in 2019

Total investment activity (VC, PE and M&A) in fintech in Australia 2014–Q4 2019



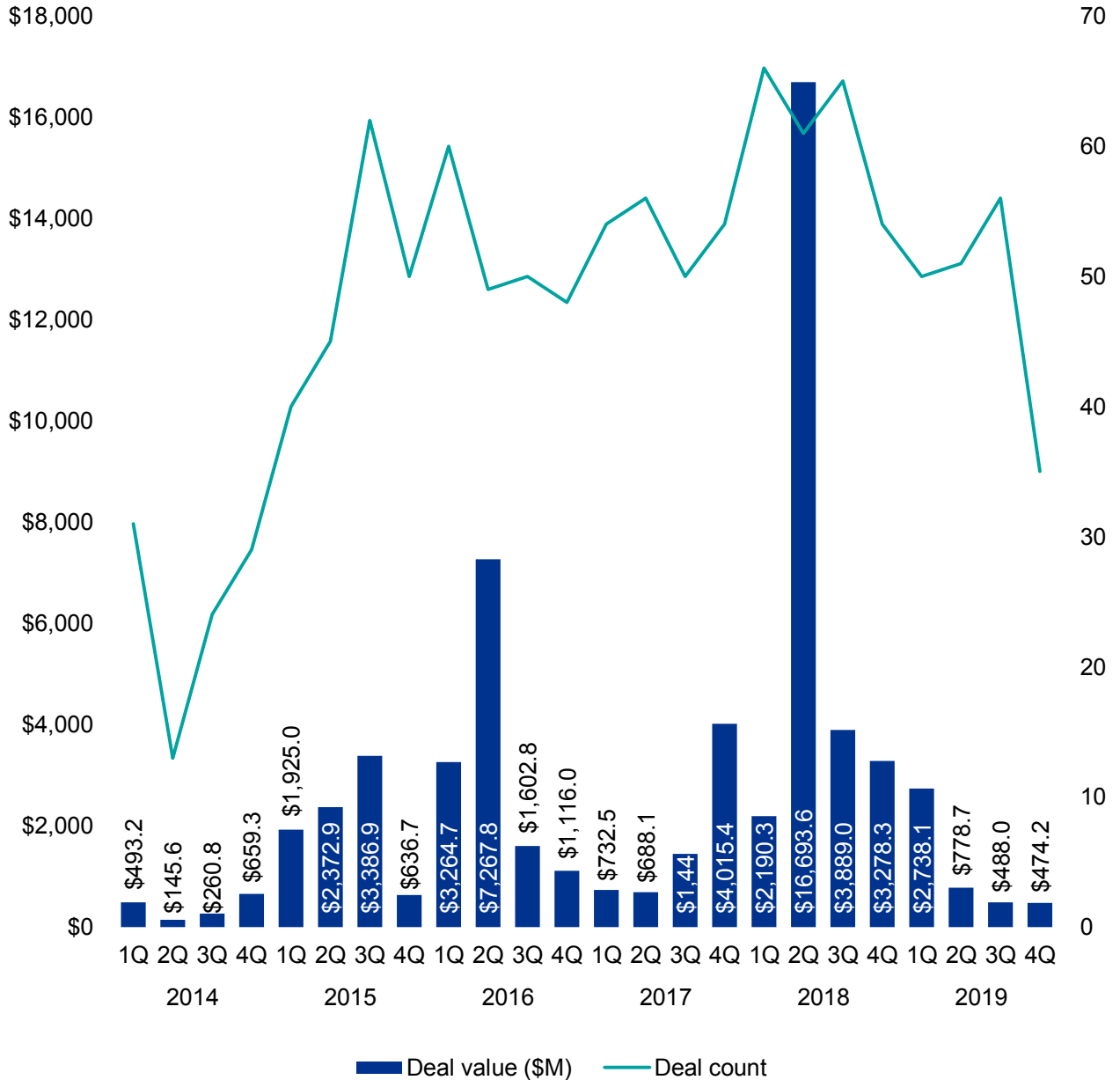
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China sees less active 2019 than 2018

Total investment activity (VC, PE and M&A) in fintech in China 2014–Q4 2019

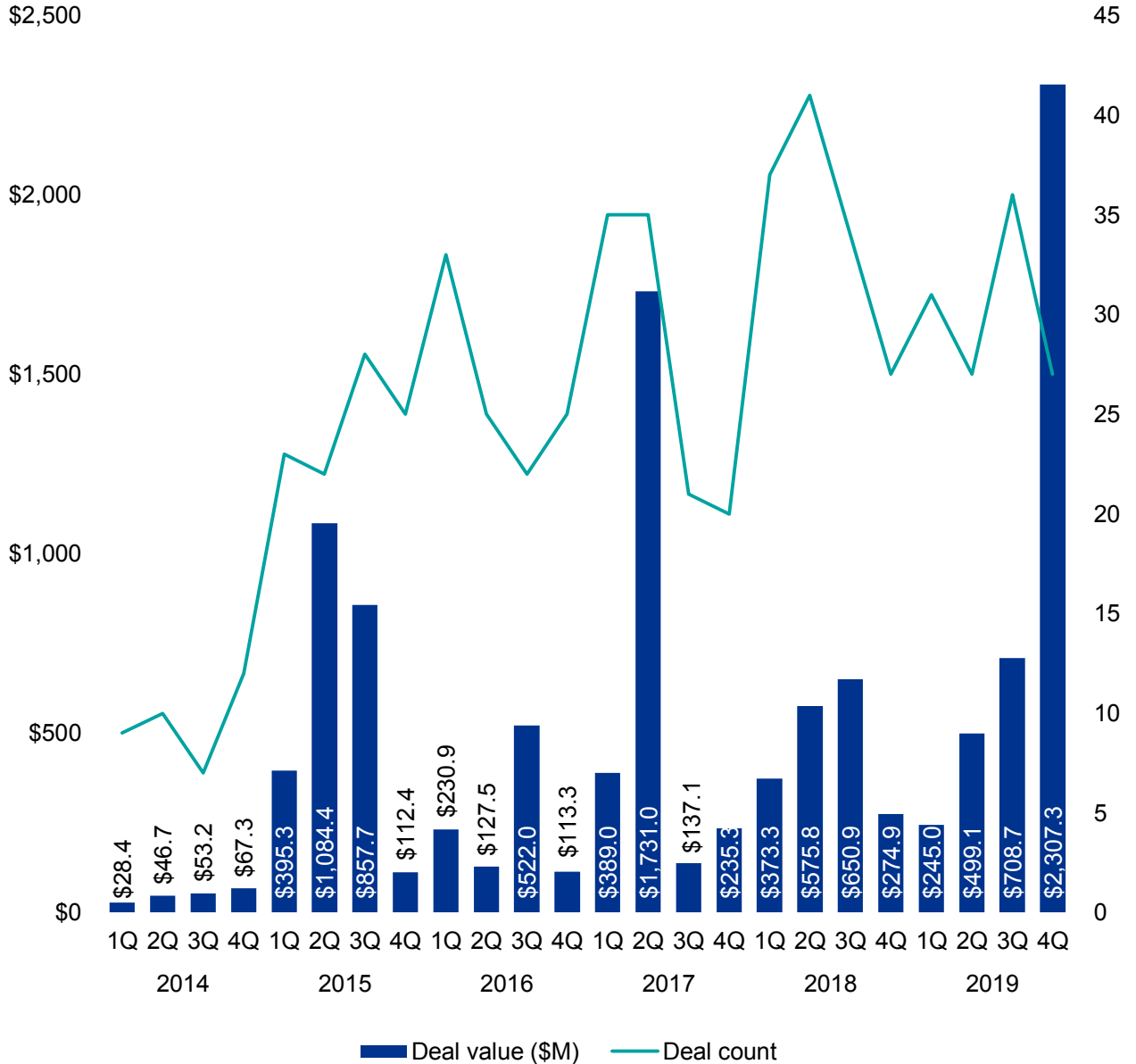


Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

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India sees surge driven by mature fintechs

Total investment activity (VC, PE and M&A) in fintech in India 2014–Q4 2019



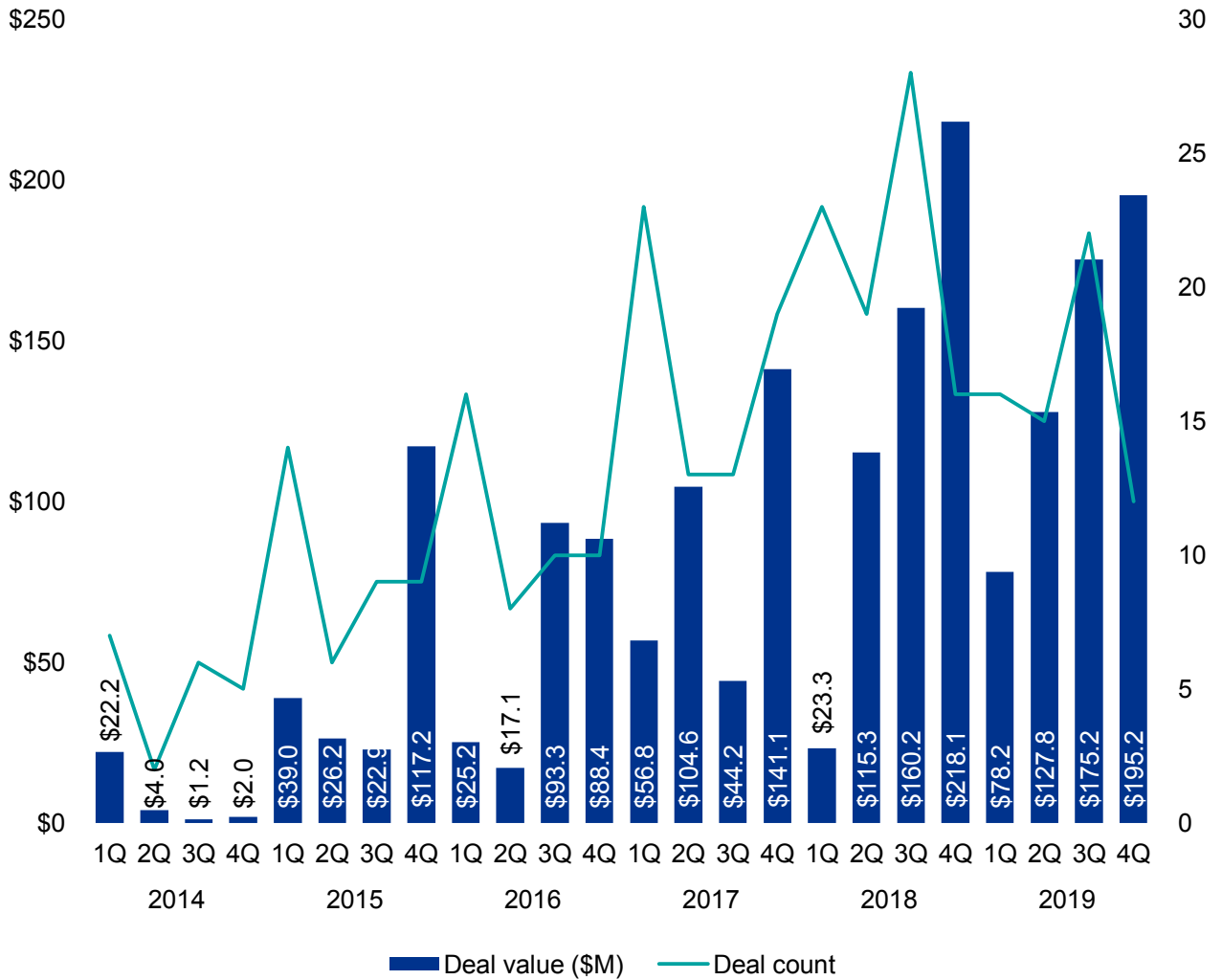
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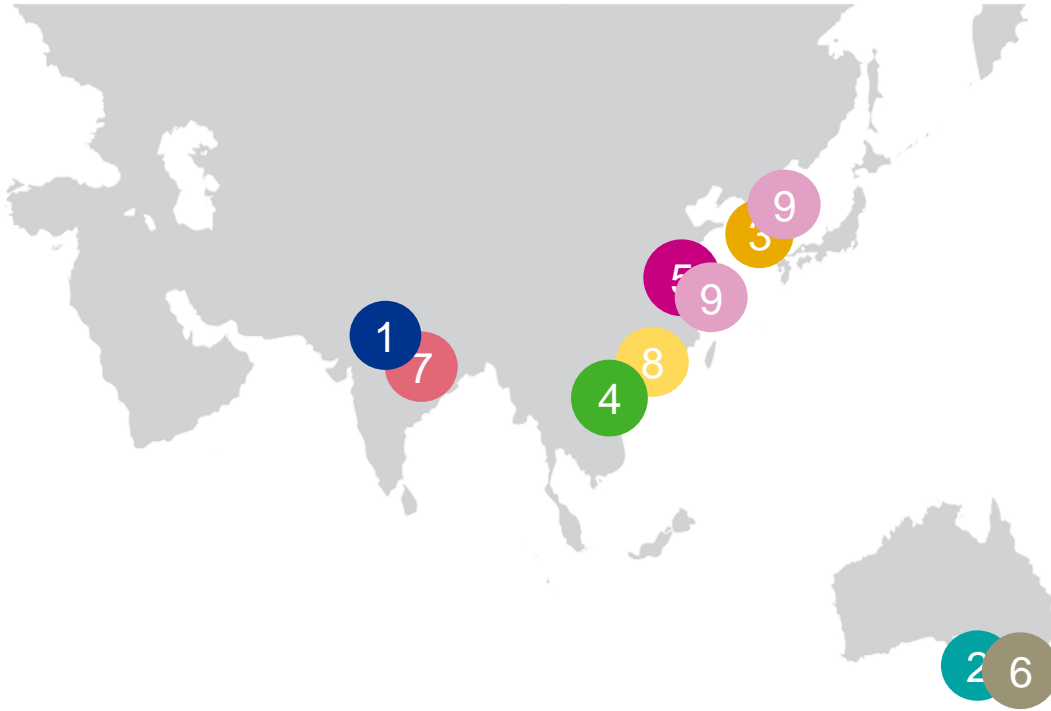
VC invested records second-highest tally ever

Total investment activity (VC, PE and M&A) in fintech in Singapore 2014–Q4 2019



Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

Top 10 fintech deals in Asia Pacific in 2019



- | | |
|---|--|
| <p>1 Paytm — \$1.7B, Noida, India
Payments/transactions
<i>Series G</i></p> <p>2 Property Exchange Australia — \$1.2B, Melbourne, Australia
Proptech
<i>M&A</i></p> <p>3 Lotte Insurance — \$339M, Seoul, South Korea
Insurtech
<i>Buyout</i></p> <p>4 Vietnam Payment Solution — \$300M, Hanoi, Vietnam
Consumer finance
<i>PE growth</i></p> <p>5 Ouyeel — \$292.7M, Shanghai, China
Institutional/B2B
<i>Late-stage VC</i></p> | <p>6 Judo Capital — \$279.6M, Southbank, Australia
Lending
<i>Buyout</i></p> <p>7 PolicyBazaar — \$238M, Gurugram, India
Personal finance
<i>Series F</i></p> <p>8 WTOIP Intl. — \$224.8M, Guangzhou, China
Crowdfunding platform
<i>Late-stage VC</i></p> <p>9 Blockchain Exchange Alliance — \$200M, Seoul, South Korea
Cryptocurrency/blockchain
<i>Late-stage VC</i></p> <p>9 Edaili — \$200M, Shanghai, China
Institutional/B2B
<i>Series D</i></p> |
|---|--|

Source: Pulse of Fintech 2019, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), as of 31 December, 2019.

All currency amounts are in US\$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

KPMG Fintech global network

The financial services industry is transforming with the emergence of innovative new products, channels and business models. This wave of change is primarily driven by evolving customer expectations, digitalization as well as continued regulatory and cost pressures. KPMG firms are passionate about supporting clients to successfully navigate this transformation, mitigating the threats and capitalizing on the opportunities. KPMG Fintech professionals include partners and staff in over 50 fintech hubs around the world, working closely with financial institutions and fintech companies to help them understand the signals of change, identify the growth opportunities and to develop and execute their strategic plans.



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Methodology

Within this publication, only completed transactions regardless of type are tracked by PitchBook, with all deal values for general M&A transactions as well as venture rounds remaining un-estimated. Standalone datasets on private equity activity, however, have extrapolated deal values.

Please note that the MESA and Africa regions are NOT broken out in this report. Accordingly, if you add up the Americas, Asia Pacific and Europe regional totals, they will not match the global total, as the global total takes into account those other regions. Those specific regions were not highlighted in this report due to a paucity of datasets and verifiable trends.

The underlying data for this report was provided by PitchBook Data on 17 January, 2020. Due to ongoing updates to PitchBook's data as additional information comes to light, data extracted after that date may differ from the underlying datasets pulled on or before that date.

Venture Deals

PitchBook includes equity investments into startup companies from an outside source. Investment does not necessarily have to be taken from an institutional investor. This can include investment from individual angel investors, angel groups, seed funds, venture capital firms, corporate venture firms, and corporate investors. Investments received as part of an accelerator program are not included, however, if the accelerator continues to invest in follow-on rounds, those further financings are included.

Angel/seed: PitchBook defines financings as angel rounds if there are no PE or VC firms involved in the company to date and it cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than \$500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which PitchBook typically aggregates together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which PitchBook typically aggregates together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Growth equity: Rounds must include at least one investor tagged as growth/expansion, while deal size must either be \$15 million or more (although rounds of undisclosed size that meet all other criteria are included). In addition, the deal must be classified as growth/expansion or later-stage VC in the PitchBook platform. If the financing is tagged as late-stage VC it is included regardless of industry. Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

Corporate venture capital: Financings classified as corporate venture capital include rounds that saw both firms investing via established CVC arms or corporations making equity investments off balance sheets or whatever other non-CVC method actually employed.

Corporate: Corporate rounds of funding for currently venture-backed startups that meet the criteria for other PitchBook venture financings are included in the Pulse of Fintech as of March 2018.

Methodology (cont'd)

Exits

PitchBook includes the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown.

Fundraising

PitchBook defines venture capital funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional venture capital firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund is domiciled, if that information is not explicitly known, the headquarter's country of the fund's general partner is used. Only funds based in the United States that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

M&A

PitchBook defines M&A as a transaction in which one company purchases a controlling stake in another company. Eligible transaction types include control acquisitions, leveraged buyouts (LBOs), corporate divestitures, reverse mergers, mergers of equals, spin-offs, asset divestitures and asset acquisitions. Debt restructurings or any other liquidity, self-tender or internal reorganizations are not included. More than 50 percent of the company must be acquired in the transaction. Minority stake transactions (less than a 50-percent stake) are not included. Small business transactions are not included in this report.

Fintech

A portmanteau of finance and technology, the term refers to businesses who are using technology to operate outside of traditional financial services business models to change how financial services are offered. Fintech also includes firms that use technology to improve the competitive advantage of traditional financial services firms and the financial functions and behaviors of consumers and enterprises alike.

1. **Payments/Transactions** — companies whose business model revolves around using technology to provide the transfer of value as a service and/or ANY company whose core business is predicated on distributed ledger (blockchain) technology AND/OR relating to any use case of cryptocurrency (e.g. Bitcoin).
2. **Lending** — Any non-bank who uses a technology platform to lend money often implementing alternative data and analytics OR any company whose primary business involves providing data and analytics to online lenders or investors in online loans.
3. **Investment Banking/Capital Markets** — Companies whose primary business involves the types of financial intermediation historically performed by investment banks.
4. **Insurtech** — Companies whose primary business involves the novel use of technology in order to price, distribute, or offer insurance directly.
5. **Wealth/Investment Management** — Platforms whose primary business involves the offering of wealth management or investment management services using technology to increase efficiency, lower fees or provide differentiated offerings compared to the traditional business model. Also includes technology platforms for retail investors to share ideas and insights both via quantitative and qualitative research.
6. **Personal Finance** — Companies that provide a technology-driven service to improve retail customers' finances by allowing them to monitor spending, savings, credit score or tax liability OR leveraging technology to offer basic retail banking services such as checking or savings accounts outside of a traditional brick and mortar bank.
7. **Institutional/B2B Fintech** — Companies that offer technology-driven solutions and services to enterprises or financial institutions. These include software to automate financial processes, well financial security (excluding blockchain), authentication as well as traditional and alternative data utilized by financial or other institutions and enterprises to make strategic decisions.
8. **Regtech** — Companies who provide a technology-driven service to facilitate and streamline compliance with regulations and reporting as well as protect from employee and customer fraud.

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