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Global venture capital-backed fintech funding declines in Q3'16: KPMG and CB Insights

Second consecutive quarterly drop in fintech deals and dollars, but Asia bucks trend with overall investment slated to reach new high in 2016.

Investors continued to take a much more cautious approach to fintech investments this year. Venture capital (VC)-backed global fintech deal activity fell for the second consecutive quarter, marking its lowest level since Q2'14, according to the *Pulse of Fintech*, the quarterly report on global fintech VC trends published jointly by KPMG International and CB Insights.

VC-backed fintech funding dropped 17% to US\$2.4B, while deal activity fell 12% to 178 deals in Q3'16 compared to the previous quarter. Asia was the only continent to see a fintech funding increase on a quarterly basis in Q3'16, while North America and Europe fintech funding declined. All three continents covered in the report saw fintech deal count drop.

"Asian investors are seeing the potential of fintech amidst global uncertainty in an environment of moderating growth," said Chia Tek Yew, Head of Financial Services Advisory, KPMG in Singapore. "As businesses continue to embark on the journey of transformation, interest and investment in Asia's fintech sector will continue to be strong, particularly in areas like payments technology, insurance technology and regulatory or risk technology."

Mr Chia added: "Singapore is a leading fintech hub, being one of the first countries in the world to put in place a regulatory fintech sandbox. There are also plans by the authorities to explore ways to attract more VC funds, which bodes well for the overall funding ecosystem."

Asia quarterly fintech funding tops US: US\$1.2B across 35 deals in Q3'16

While the number of VC-backed fintech deals dropped to a five-quarter low in Asia, funding increased 50% on a quarter-over-quarter basis to reach US\$1.2B.

Year-to-date results of US\$4.7B suggest Asia-based fintech investment for 2016 could top last year's peak investment results of US\$4.8B.

Corporates continue to be highly active in Asia's fintech investment environment, participating in more than half of all deals to VC-backed fintech startups in Q3'16.

North America sees fintech funding fall below US\$1B

North America saw both fintech funding and the number of deals fall on a quarter-over-quarter basis, as VC-backed startups raised just US\$0.9B across 96 deals, a drop of 5% in deals from Q2'16.

Funding in Q3'16 to VC-backed fintech companies in North America fell 68% compared to the same quarter last year, which saw US\$100M+ financings to the likes of Sofi, Avant and Kabbage.

Europe fintech funding on pace to drop below 2015 levels

Q3'16 saw European fintech deals fall 17% quarter-over-quarter as fintech funding in Europe dropped 43% over the same time period to US\$233M. Germany outpaced the UK in terms of fintech funding for the second consecutive quarter, with 35% more funding raised by German-based VC-backed fintech companies than those in the UK.

Corporates stay active in fintech

Corporates participated in 30% of global VC-backed fintech deals for the second consecutive quarter in Q3'16, driving a significant amount of fintech deals activity globally. Citigroup, Banco Santander and Goldman Sachs have made over 20+ fintech investments in total over the past five quarters, while a host of insurers have launched corporate venture arms.

Other key highlights from the *Pulse of Fintech*:

- Global fintech mega-rounds fell to a new low in Q3'16. Asia saw US\$50M+ fintech rounds stay level for the fourth straight quarter, while Europe has not registered a single US\$50M+ round to a VC-backed fintech company so far in 2016.
- The median late-stage deal size in fintech globally fell to US\$23M in Q3'16. This is significantly smaller than the same quarter last year, when median late-stage fintech deal size hit US\$50.2M globally.
- Total year-to-date funding to VC-backed InsurTech companies reached US\$1.36B at the end of Q3'16. InsurTech-focused VC-backed deal activity topped 20 deals during three of the past five quarters.
- Next-gen payments has attracted US\$1.2B+ in 2016 VC-backed funding (year-to-date). The top 20 deals, including Affirm, MobiKwik and One97, raked in 67% of the total funding to payments technology companies in the first three quarters.

Anand Sanwal, CEO of CB Insights, adds: "While we continue to see significant investment into fintech companies globally, the euphoria for mega-deals that we saw into the latter half of 2015 has waned. Total investments to key areas like marketplace lending and blockchain technology have both seen declines heading into the tail-end of 2016."

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