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Global fintech investment sees sharp decline in 2016 despite record VC funding: KPMG Q4’16 Pulse of Fintech Report

Asia fintech investment experienced a new high of US$8.6b in 2016

After 2015’s record-setting US$46.7 billion in total global funding to fintech companies, 2016 experienced a decline in the market with a 47.2% slide in fintech investment, according to KPMG International’s *The Pulse of Fintech* – a quarterly report on global fintech investment. The 2016 fintech funding total of $24.7B was still significant compared to pre-2015 investment levels.*

Merger and acquisitions (M&A) and private equity (PE) fintech deals dropped considerably in 2016, while venture capital (VC) investment reached a new high of US$13.6B compared to US$12.7B in 2015. Three Chinese mega-rounds buoyed global fintech funding significantly, led by the Q2’16 Ant Financial record-setting US$4.5 B funding round.

While VC investment softened somewhat in the second half of 2016 due to a decline in mega-rounds, the year ended on a positive note, with US$2B invested in Q4’16 across 200 deals, compared to US$1.9B across 176 deals during the previous quarter.

“Two key trends in 2016 were collaboration, with fintechs learning to work with the big banks, and the rise of China. China has become a fintech powerhouse, both in investment flow and deal activity,” commented Warren Mead, Global Co-Leader of Fintech, KPMG International and Partner, KPMG in the UK.

In Singapore, the overall investment in fintech companies saw a drop from US$605M to US$186M in 2016. Conversely, the number of deals only decreased by two to 28 in 2016, indicating an overall fall in average deal value.

“In 2016, we saw MAS driving the evolution of Singapore into a prominent fintech hub. However, we’ve yet to see an impact on the levels of VC funding here. Looking to 2017, I believe MAS will fast-track the proposals to simplify authorisation process for VC funds to address this and attract more VCs to Singapore,” said Chia Tek Yew, Head of Financial Services Advisory, KPMG in Singapore.

**Key 2016 annual highlights**

- Total 2016 fintech funding declined to US$24.7B from US$46.7B in 2015, while deal activity dropped from 1,255 to 1,076.
- VC funding to fintech companies reached a record US$13.6B compared to US$12.7B in 2015, with 840 deals recorded.
- Overall fintech deal funding in Asia grew slightly year over year, reaching a new record high of US$8.6B invested compared to US$8.4B in 2015. 3 mega-rounds accounted for over half of this total.

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Both overall funding and VC funding to fintechs declined in the US, with totals of US$12.8B and US$4.6B respectively.

Overall European fintech funding dropped sharply in 2016, even though transaction volume remained quite resilient, reaching US$2.2B across 318 deals.

Corporate VC investment in fintech rose for the seventh straight year, reaching 145 deals, US$8.5B in 2016.

Key Q4’16 highlights

- Quarterly VC funding to fintech companies increased from US$1.9B to US$2.1B between Q3’16 and Q4’16, yet remained weak compared to early year quarterly results.
- Asia VC funding rebounded in Q4’16 to US$680M after reaching a low of US$200M in Q3’16, primarily driven by a US$384M+ mega-deal in the quarter.
- VC investment in the Americas and the US fell in Q4’16, to US$1.1B and US$900M respectively. Canada bucked the region’s downward trend, reaching a new high of US$138M in fintech VC investment.
- Europe-based VC investment remained relatively stable in Q4’16, with US$319M in fintech investment. Over the same period, the number of VC-based fintech deals increased from 52 to 63 deals.

Decline in M&A speaks to 2015 high rather than 2016 low

During 2016, there was a marked decline in fintech-related M&A activity around the world, from US$34B to US$11Bn. This decline is more attributable to 2014 and 2015 being incredibly strong years for fintech M&A activity rather than 2016 being an abnormally weak year. The 236 fintech M&A deals executed globally in 2016 came second only to the 313 deals that closed in 2015.

Among the most exciting M&A deals in 2016 were the US$725 million purchase of OptionsHouse by E*Trade Financial in Q3’16 as well as payment processor TransFirst’s US$2.35 billion acquisition by Total System Services in Q2’16.

Blockchain investment reaches a tipping point

Global venture investment in bitcoin and blockchain technologies reached a high of US$543.6M in 2016, compared to US$441M in 2015; however, the deceleration in deal count of 132 versus 191 deals closed in 2015 likely signifies that some initial hype in blockchain is fading and greater evidence of robust applications will be required for future investment.

Outlook strong for 2017

Insurtech is predicted to continue the strong growth witnessed in 2016 as the insurance industry plays catch-up with the innovations seen in the banking industry. Growing applications of innovative technologies like wearables, the Internet of Things and artificial intelligence to the insurance industry are also likely to spur further investment. There is also likely to be increasing participation of tech giants in the fintech sector. Already companies like China-based Alibaba Group are targeting promising fintech companies as a means to expand globally.

“2017 is shaping up to be a pivotal year for fintech globally,” said Brian Hughes, Co-Leader, KPMG Enterprise Innovative Startups Network, and National Co-Lead Partner, KPMG Venture Capital Practice, KPMG in the US. “Because valuations have corrected, the market has set up a
perfect storm for IPOs and M&A to happen in 2017. An increasing number of exits will likely only stimulate demand for new investments thanks to the dry powder already present in the market."

*Note: All figures cited are in USD; data for the report provided by PitchBook.

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### About KPMG Fintech ###

The Financial Services sector is transforming with the emergence of innovative products and solutions. This wave of innovation is primarily driven by changing customer expectations and continued regulatory and infrastructure cost pressures. KPMG member firms are passionate about this transformation, working directly with emerging fintechs through 26 global fintech hubs. KPMG professionals also bring their global fintech insight to traditional financial institutions, helping them fully realise the potential fintech has to grow their business, meet customer demands, and help them stay relevant and competitive.

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