KPMG

# The Pulse of Fintech Q1 2017

Global analysis of investment in fintech

**27 April 2017**

# Welcome message

Welcome to the Q1'17 edition of KPMG International's Pulse of Fintech report, in which we explore global trends and deal activity within fintech.

Globally, fintech investment held relatively steady as the market undertook a reset following a year of uncertainty across North America, Europe and Asia. Mergers and acquisitions (M&A) remained low following a major drop off in Q4'16, while venture capital (VC) funding to fintech took a small dip quarter over quarter. Meanwhile, private equity (PE) investment and deal activity rose slightly.

Corporate investors continued to drive fintech investment, with banks, insurance companies and other financial institutions recognizing the need to innovate and making investments accordingly. This quarter, corporates moved beyond traditional direct VC fintech investment and looked towards building partnerships and alliances with fintech companies in order to achieve their objectives.

On a regional basis, both the US and Europe started off the year with upticks in fintech investment and deal activity — with Europe in particular experiencing the highest level of investment in years. Asia, meanwhile, saw fintech investment drop, as the lack of mega-deals continued, and China introduced new fintech regulations that may take some time for fintech companies and investors to digest. The rapid expansion of Asia's fintech ecosystem across jurisdictions and strong ongoing interest in fintech in the region, suggest this decline may be short-lived.

Within fintech, payments and lending continued to dominate deals in most jurisdictions, although artificial intelligence (AI), the Internet of Things (IoT), big data, regulatory technology (regtech) and insurance technology (insurtech) are quickly growing on the radar of investors.

We examine these results and other trends in this quarter's report. We also explore a number of questions permeating the fintech market today, including:

— While Q1'17 was quiet, is the tide about to turn for fintech investment?
— How is the revised Payment Services Directive (PSD2) driving fintech activity in Europe?
— What is driving the proliferation of fintech hubs globally?
— Is regtech ready to come into the investor spotlight?

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

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 189,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

**Dennis Fortnum**
Global Chairman,
KPMG Enterprise,
KPMG International

**Ian Pollari**
Global Co-Leader of Fintech,
KPMG International and
Partner,
KPMG Australia

**Warren Mead**
Global Co-Leader of Fintech,
KPMG International and
Partner,
KPMG in the UK

**Brian Hughes**
Co-Leader,
KPMG Enterprise Innovative
Startups Network, Partner,
KPMG in the US

**Arik Speier**
Co-Leader,
KPMG Enterprise Innovative
Startups Network, Partner,
KPMG in Israel

# Contents

# Summary of findings for Q1'17

After a year marked by blockbuster deals, 2017 starts off modestly: Combining venture and M&A investment, fintech deal value in Q1'17 hit $3.2 billion, not a steep drop from the $4.15 billion registered in Q4'16, but a far cry from earlier outlier quarters.

Transaction volume steadies: Overall, first-quarter M&A and venture activity stayed at a new subdued level observed over the past 3 quarters, with the first quarter seeing 260 deals closed in the fintech space.

VC returns to 2014 levels: In terms of volume, venture financing is now seeming to oscillate around early 2014 or full-year 2013 levels, having fallen from the peaks of 2015. VC investment, however, remains on the historically high end at $2.3 billion.

Corporate participation remains at elevated level of volume: Having steadily grown throughout 2014, with a few quarterly spikes since, activities of corporations and corporate venture arms continue to participate in VC financing at an elevated level on a historical basis, with 39 completed rounds reaching $1.2 billion in VC invested in Q1.

Late-stage financings decline: After a peak of $16.8 million in 2016, the average VC transaction size dropped in Q1'17 to $11.8 million. However, the median hit a new high of $3.8 million in the same timeframe.

Valuations decline at the late-stage: Owing to timing, the median VC post-valuation dropped from $151.3 million in full-year 2016 to $41.5 million in the first quarter of the year. Signifying the temporality of that trend, early-stage VC valuations rose even higher to $41.0 million for the same period.

US VC financing sees uptick: Deal flow slumped to a subdued level throughout 2016 in the US, yet Q1'17 saw a slight increase, primarily driven by a doubling of late-stage venture rounds.

Europe sees boom in quarterly VC invested: Fintech venture activity in Europe has fluctuated at a historically higher level for several quarters now, yet thanks to several huge rounds, Q1'17's total of capital invested soared to $610 million, the highest tally in years.

Mega-Deals drive Fintech investment in Asia: With several hotspots for fintech yet still being an emerging ecosystem when it comes to venture capital, the Asia-Pacific region sees considerable fluctuation on a quarterly basis in deal volume. Yet mega-deals will still occur and boost overall investment value, whether they are strategic investments or corporations' establishment of new divisions that attract significant fundings.

Note: This report covers all mergers and acquisitions, private equity investment types and rounds to VC-backed companies, delineated appropriately. Mega-deals to VC-backed companies from hedge funds or mutual funds are included. All data is sourced from PitchBook. Page 67 details the methodology and definitions used.

All currency amounts are in USD, unless otherwise specified, data provided by PitchBook.

**In Q1’17, global investment in fintech companies hit**

# $3.2B

**across**

**260 deals**

# Modest start to Q1'17 for global fintech investment

Fintech investment got off to a quiet start in 2017. While fintech deal volumes and deal value held relatively stable quarter-over-quarter at $3.2 billion invested globally, results remained below the levels seen in 2015 and early 2016. M&A deal value remained particularly low, although the number of M&A deals increased slightly from Q4'16. VC investment dipped slightly in Q1'17, but remained near $2.3 billion — a solid result compared to previous quarters. Meanwhile, PE deals activity and investment increased, although both remained well below historical highs.

### US continues to drive fintech investment, but myriad jurisdictions seeing success

While the US led fintech investment in Q1'17, with $1.5 billion across VC, PE and M&A, one of the strongest elements of the global fintech market is in the wide variety of fintech hubs that have developed around the world. This quarter's top ten global deals accurately portray the diversity of the global fintech market, with deals in the US, Canada, India, China, Sweden and the UK making the list. Even within the US, fintechs have succeeded in growing outside of Silicon Valley, with companies based in Delaware and Ohio making the top deals list.

### Global fintech investors focusing more on performance

With the exception of a few jurisdictions, there has been exponential growth in fintech over the past few years. With fintech companies and technologies now maturing in leading jurisdictions, investors appear to be looking for early investments to prove and show one's ability to achieve scale. This increasing focus on performance over potential is a natural progression. Investors that may have financed a wide range of investments seem to have now focused on making then work rather than increasing the size of their portfolio. As a result, it is not surprising that fintech investment has moderated somewhat over the past few quarters and into Q1'17.

### Maturing fintechs taking aim at expansion

Q1'17 saw a number of mature fintech companies and fintech investors focusing on expansion as a means to fuel growth, either geographically or through product or service expansion. Unicorn company, SoFi, is a great example of this. During Q1'17, SoFi acquired Zenbanx gaining the ability to provide more functions of a traditional bank, including customer deposits. SoFi also raised over $450 million in order to fuel expansion into the Australia and Asia markets. During Q1'17, global tech giant Ant Financial also announced a $200 million investment in Kakao Pay to expand its reach and activities to Korea — although the deal will likely officially close in Q2'17.

### Partnership models gaining traction in fintech

Globally, investment in fintech evolved beyond simple acquisitions or VC investments during Q1'17. Corporates, who have continued to invest in fintech have also demonstrated increased interest in partnerships and alliances, in order to leverage the innovation potential of fintech. Through partnership models, fintech companies can gain access to customers and customer data they may not be able to access independently. At the same time, corporates gain access to technologies and tools that can help them provide more attractive and cost effective solutions for their customers.

# Modest start to Q1'17 for global fintech investment, cont.

### Investment in blockchain down, but interest continues to build

Despite the results of Q4'16, a limited number of banks have left the R3 consortium in Q1'17, including Goldman Sachs and Santander. The consortium model continues to evolve as a way to develop blockchain. In Q1'17, a number of new consortia focused on a more limited set of use case areas were announced, including the State Bank of India's National Bank Blockchain Consortium. The insurance industry also saw an expansion of blockchain-focused consortia, with B3i announcing a number of new members in Q1'17. At the same time, blockchain reached an inflection point on migrating to production, tested by outstanding technical design challenges and the adequacy of the business case for transformation to support production systems development. Despite this over the next quarter, there will likely be a continued focus on developing more robust business cases for blockchain solutions, while interest in blockchain will likely expand further into the insurance and asset management sectors.

### Insurtech investment slows following strong growth in 2016

Q1'17 saw VC-specific insurtech investment drop to $243 million across 43 deals globally as the sector experienced a pause following strong growth in 2016. This lull is not expected to last, particularly as insurance companies around the world seem to have begun to feel the pressure to embrace insurtech innovation. Insurtech as a whole remains a relatively immature part of the fintech market, with many offerings broadening the definition of fintech rather that diving deep into particular areas. Given this, it was not surprising to see insurtech investments in Q1'17 focused primarily on seed and early-stage companies.

Over the remainder of 2017, insurtech investment should continue to grow across the insurance value chain. Both insurers and insurtechs will likely be looking to test and pilot solutions across the entire insurance life cycle, from peer-to-peer (P2P) insurance, community-based insurance, health insurance and life insurance — to employee benefits, employee safety programs, software as a service (SaaS) models and comparison sites. Investments in enabler technologies like artificial intelligence and IoT are also expected to grow.

### Regtech gaining traction

Investors are showing continued interest in regtech, with strong early investment in Q1'17 following 2016's peak. In addition to reducing compliance costs through automation, regtech solutions are increasingly supporting a broader remit, delivering capabilities to support the growth agenda. Regtech startups in the US and UK currently garner the lion's share of VC attention, but activity in Australia, Singapore and Hong Kong shows signs for growth in coming quarters.

### Trends to watch globally

Over the next quarter and throughout the remainder of 2017, fintech investment is well poised for growth. More established fintech companies will likely continue to pursue expansion opportunities, either by bringing niche solutions to new markets or by expanding the products and services they provide to their existing markets. Insurtech and regtech will likely continue to grow on the radar of investors, with regulatory issues like licensing coming to the forefront. It is likely that some larger fintech companies will look at obtaining banking licenses in order to expand their business models and product offerings.

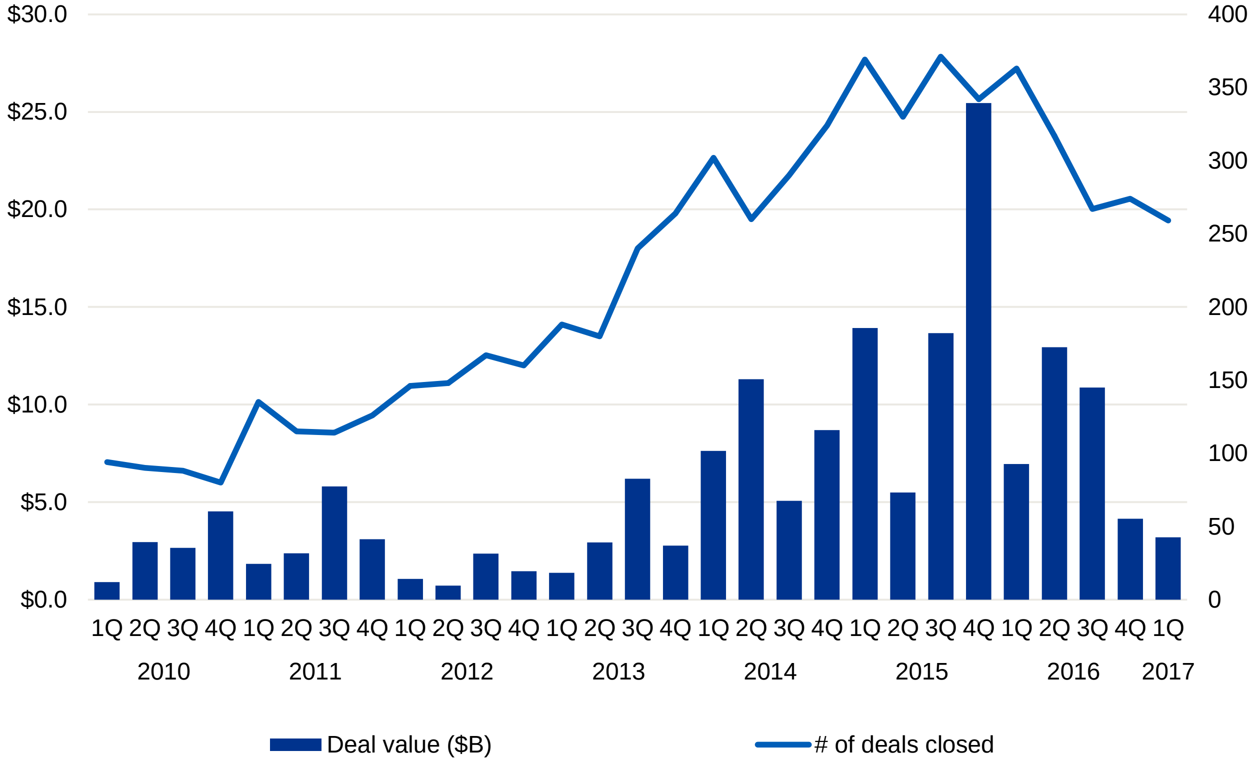
On a technology level, AI is expected to be a key area of focus for many investors, in addition to smart data and predictive analytics. With PSD2 approaching in Europe, open banking and API offerings are also expected to gain significant attention.

KPMG

# Deal volume and value declines

**Global investment activity (VC, PE and M&A) in fintech companies**

2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.
Note: Refer to the Methodology section on page 67 to understand any possible data discrepancies between this edition and previous editions of The Pulse of Fintech.

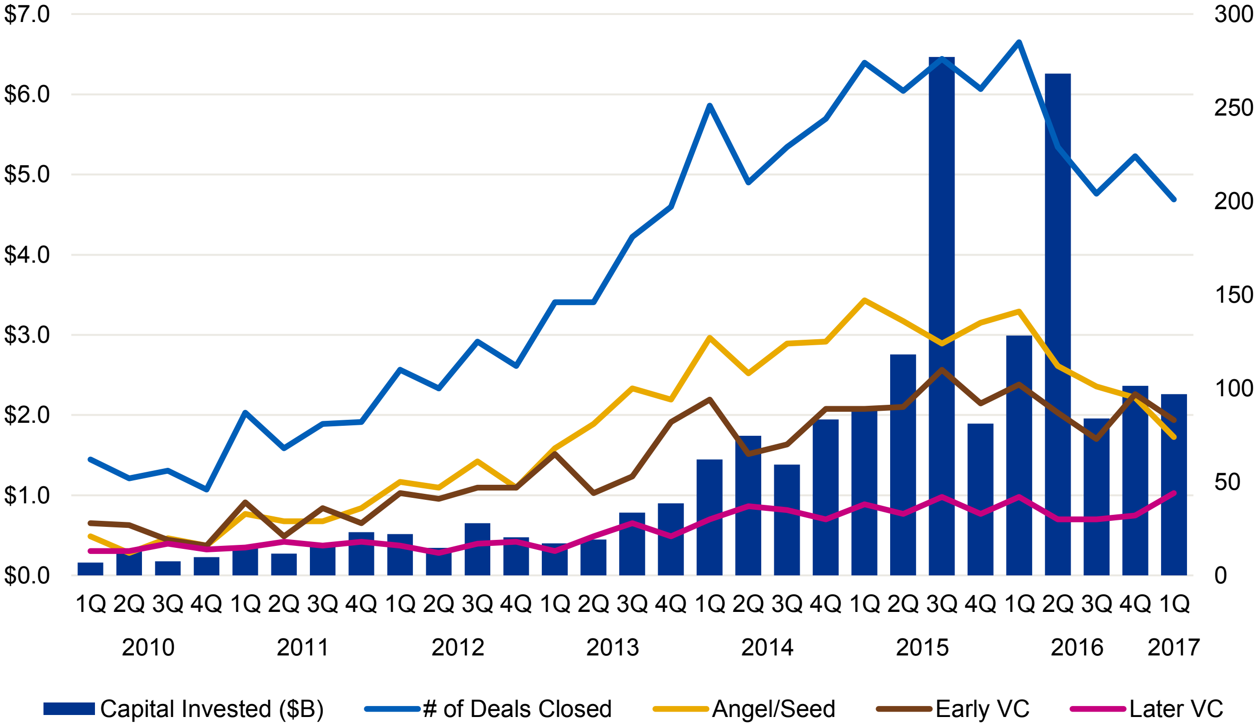
After a marked downturn in the first half of 2016, in the subsequent three quarters, overall investment volume within fintech has relatively steadied at a subdued level, more akin to what was observed in the second half of 2013 and much of 2014. This is attributable, in part, to the venture industry's surge and subsequent normalization over that time period, as well as the emergence of frontrunners within certain segments in developed markets that are perceived to have a significant headstart and thus discourage the funding of nascent startups. However, consolidation within those arenas also has yet to occur, hence M&A volume is not yet boosting numbers.

KPMG

# VC invested in fintech stays high

**Global VC activity in fintech**

2010 — Q1’17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

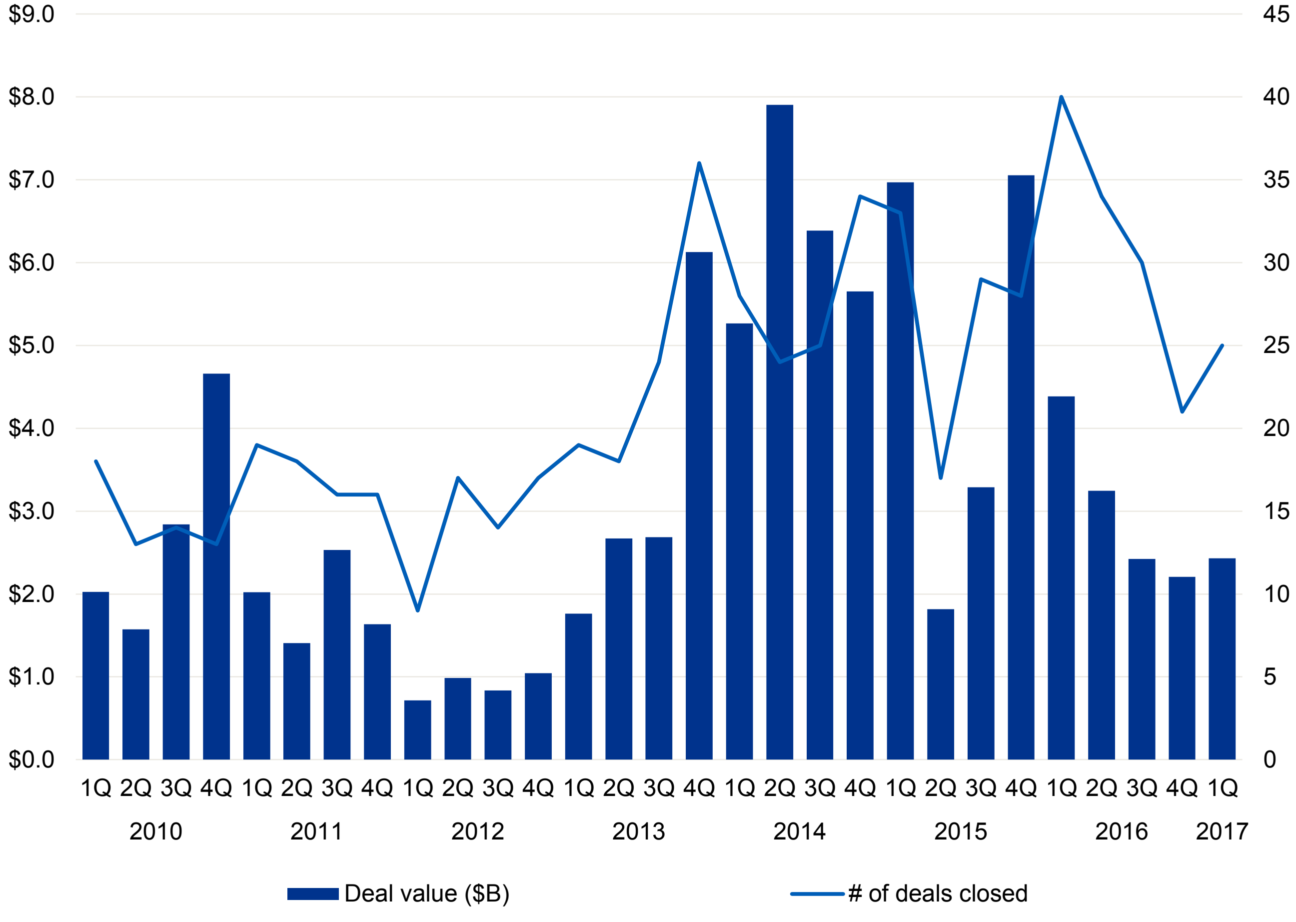
Bolstered in large part by an uptick in late-stage financing volume, total VC capital invested in Q1’17 stayed on the historically higher end, reaching just shy of $2.3 billion. Transaction volume was also quite healthy, even if persisting at a subdued rate relative to the exuberance observed in 2015 and the first quarter of 2016.

“This is the year where investors will be looking to realize the benefits of investments they have made over the last four to five years — to see those fintech startups scale and prove themselves is critical in order to attract follow-on investments.”

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

# PE interest still active

**Global PE activity in fintech**
2010 — Q1'17



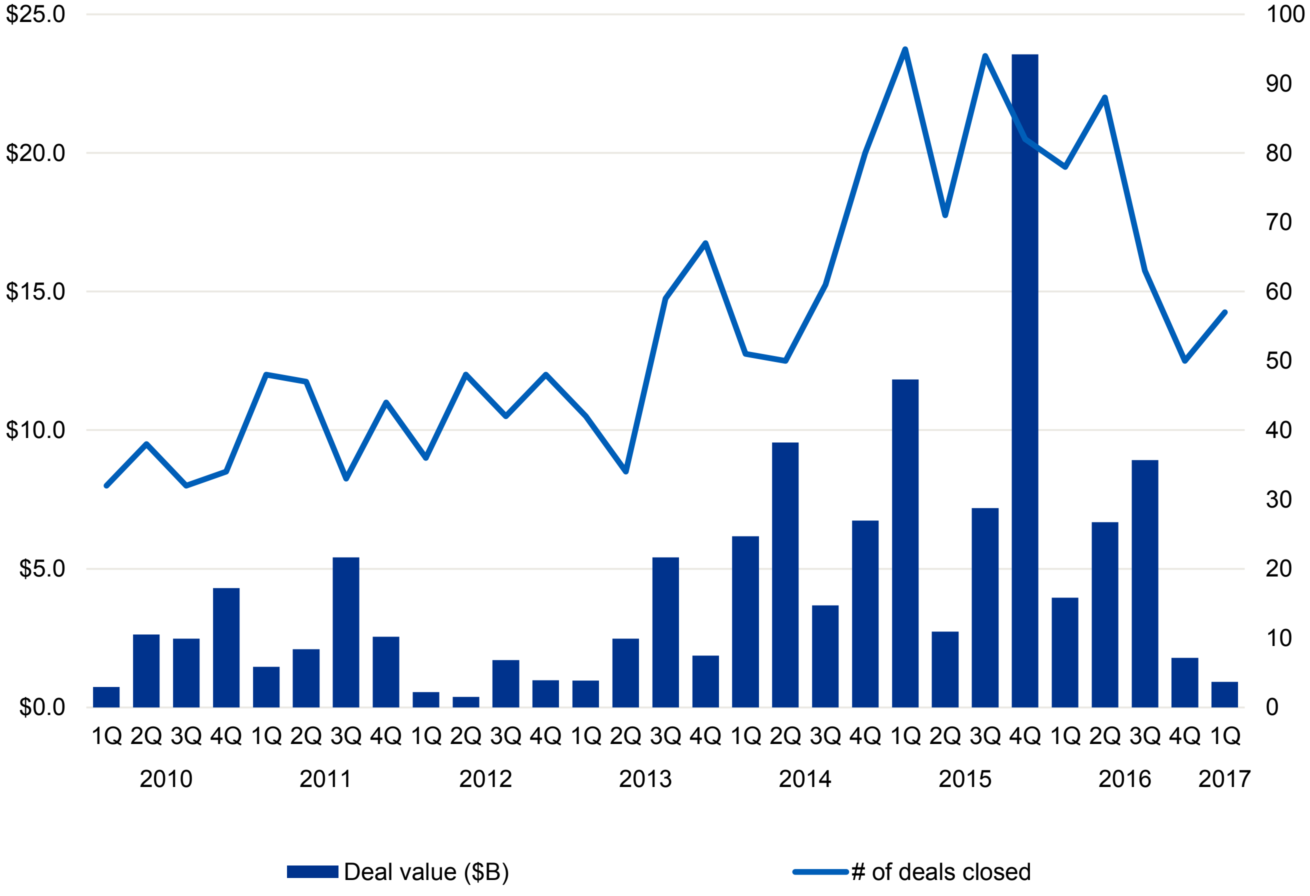

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of3/31/2017) April 27, 2017. Datasets that consist of solely PE transactions have extrapolated deal values.

As PE dealmakers still grapple with a complex and challenging environment for finding new targets, they appear to be maintaining an active interest in the tech industry. Accordingly, those equipped and motivated to invest in fintech businesses, given extant financial services portfolios plus robust tech experience, have been boosting PE tallies for some time now.

# A slower quarter for M&A

**Global M&A activity in fintech**

2010 — Q1'17



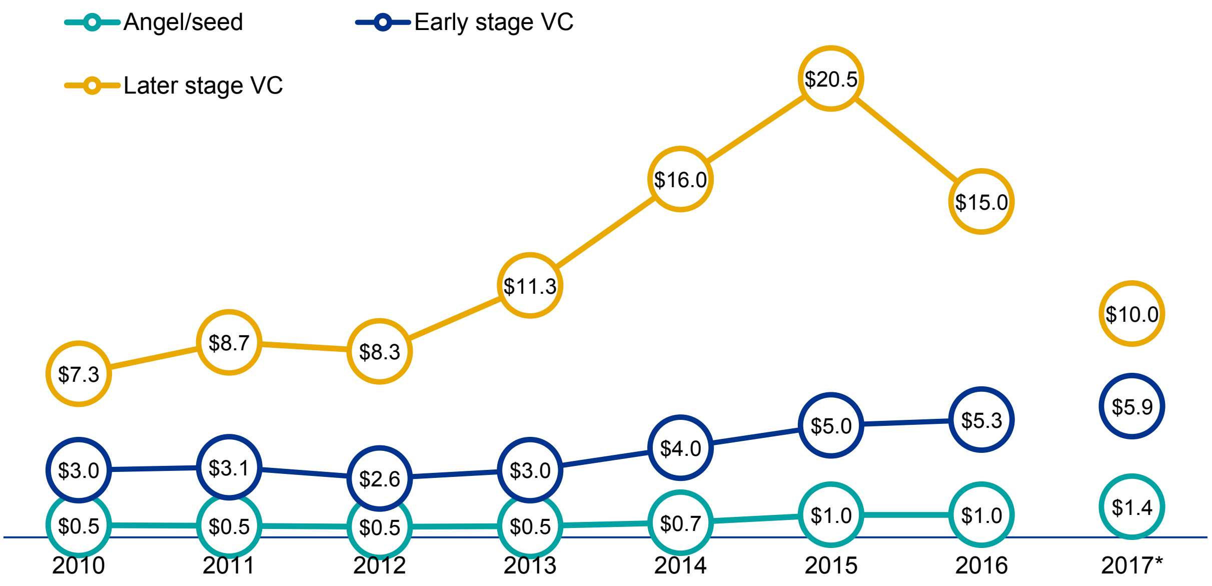

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

2015 and 2016 saw such massive sums for overall fintech M&A value that a reversion to the mean, presaged by a downturn in M&A volume first, was likely. Thus, even as M&A activity chugs along at a subdued level, with a mild quarter-over-quarter uptick, another low quarter for M&A value is not entirely unexpected.

Late-stage valuations cool

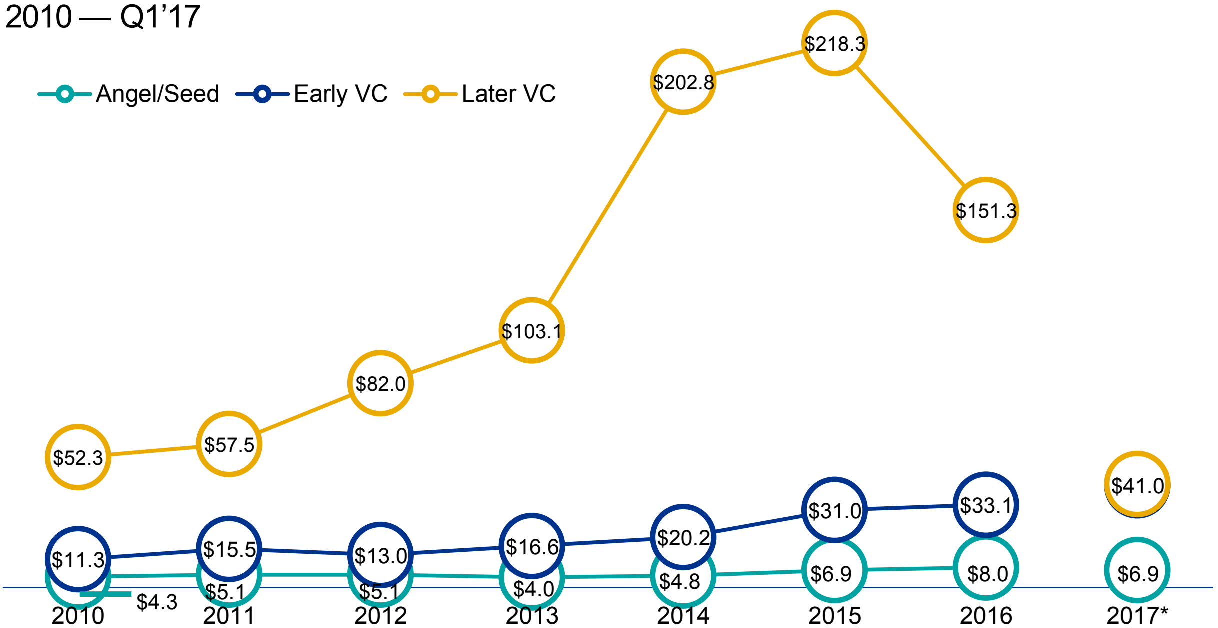
## Global median venture financing size ($M) by stage in fintech

2010 — Q1'17




## Global median post-money valuation ($M) by stage in fintech

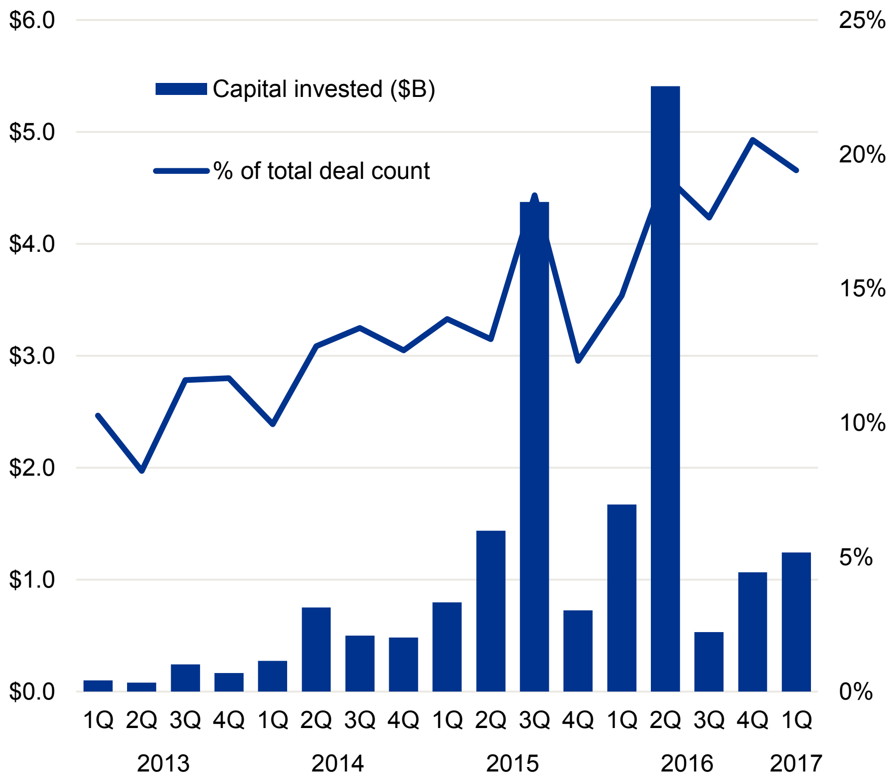
2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

# Corporate venture arms activity grows

**Global venture activity in fintech with corporate venture participation**
2013 — Q1'17




Corporate venture investors often have more incentives to stay active than the typical VC. In light of how elevated their participation in overall VC financing activity remains, it's clear that corporates' customary incentives of staying abreast of innovation while also positioning for potential acquisition or partnerships down the road remain intact. VC invested totals often remain robust as well given certain corporations' penchant for participating in larger late-stage financings, particularly in Asia.

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

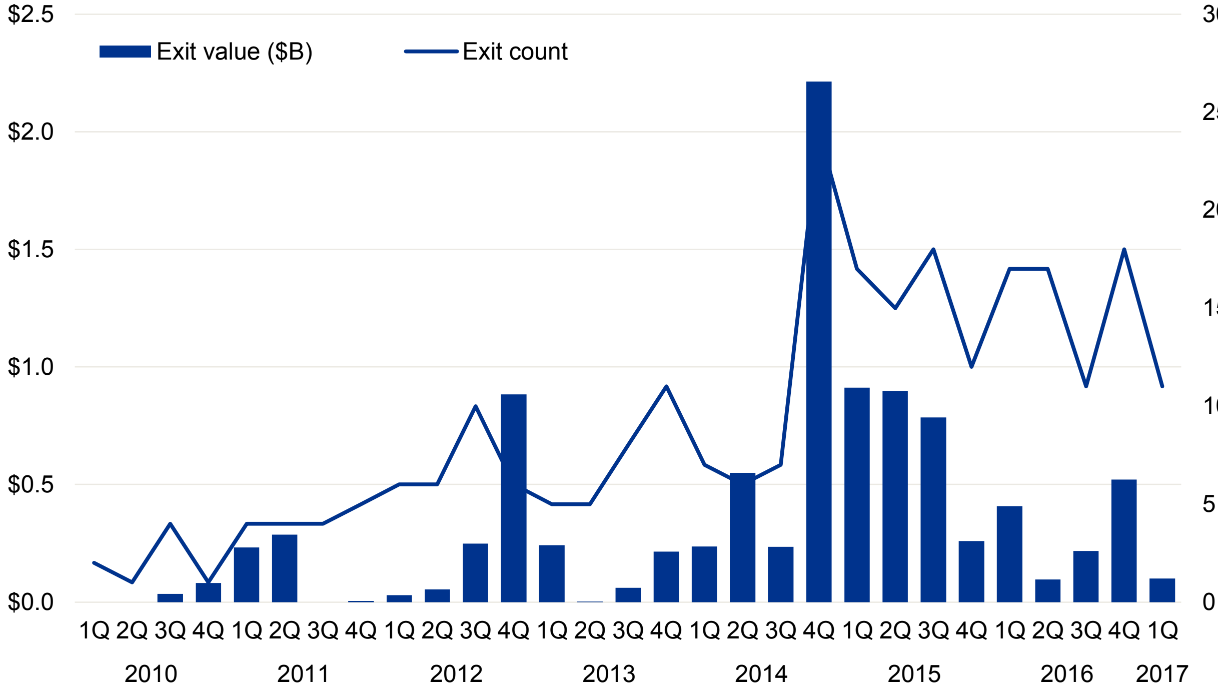
"There has been a lot of experimentation and prototypes in blockchain, but the moment has arrived where movement to production and transformation requires critical analysis on a solid fact base that generates business confidence in the validity of production systems development, transformation and it's commercial benefits. With this confidence, blockchain proponents will have the necessary business sponsorship to unlock the promise of blockchain."

**Eamonn Maguire**
Global Head of Digital Ledger Services, KPMG International, Managing Director,
**KPMG in the US**

# Exit volume still at upper end, value down

## Global venture-backed exit activity in fintech

2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Prior to late 2014, such low exit tallies for venture-backed portfolios primarily made sense given the relatively youthful nature of fintech in general. Now, exit volume still oscillates at a healthier level, even if the small numbers involved on a quarterly basis expose the impact outsized, exits can have on total exit value.

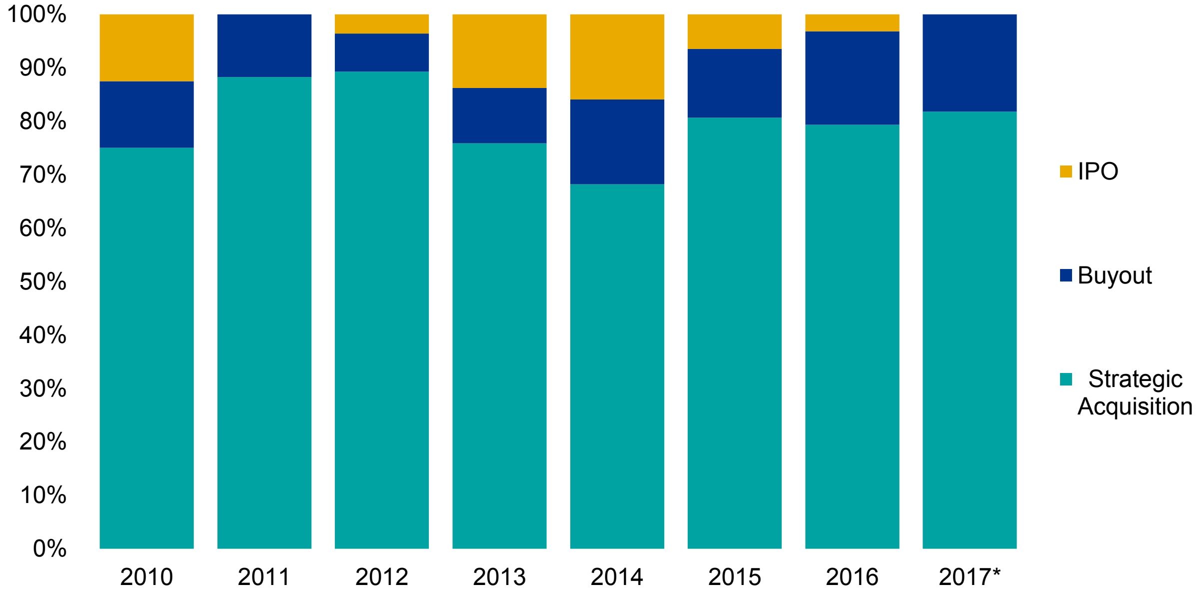
"We know there's a lot of dry powder in the market and that valuations have adjusted. We know that VCs worked through their portfolios in 2016. With the new US administration coming into place, Q1'17 was less about the past and more about resetting the market for the future. Notwithstanding the slow start to the year, we remain broadly positive on the outlook for fintech investment."

**Brian Hughes**
Co-Leader, KPMG Enterprise Innovative Startups Network, and National Co-Lead Partner, KPMG Venture Capital Practice,
**KPMG in the US**

# M&A still primary driver of exit value

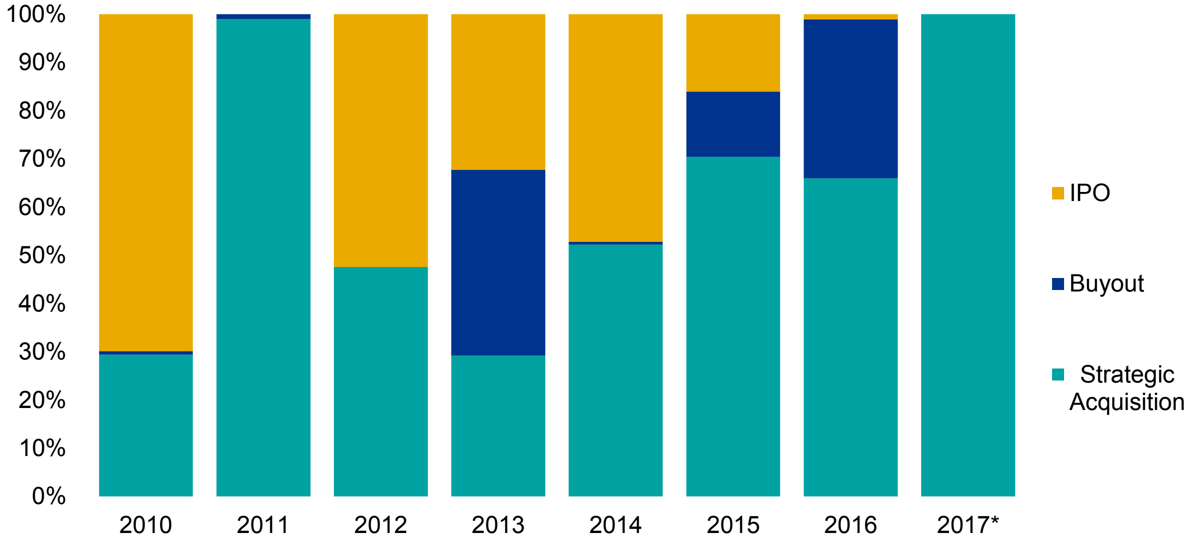
**Global venture-backed exit activity by type (#) in fintech**

2010 — Q1'17




**Global venture-backed exit activity by type ($B) in fintech**

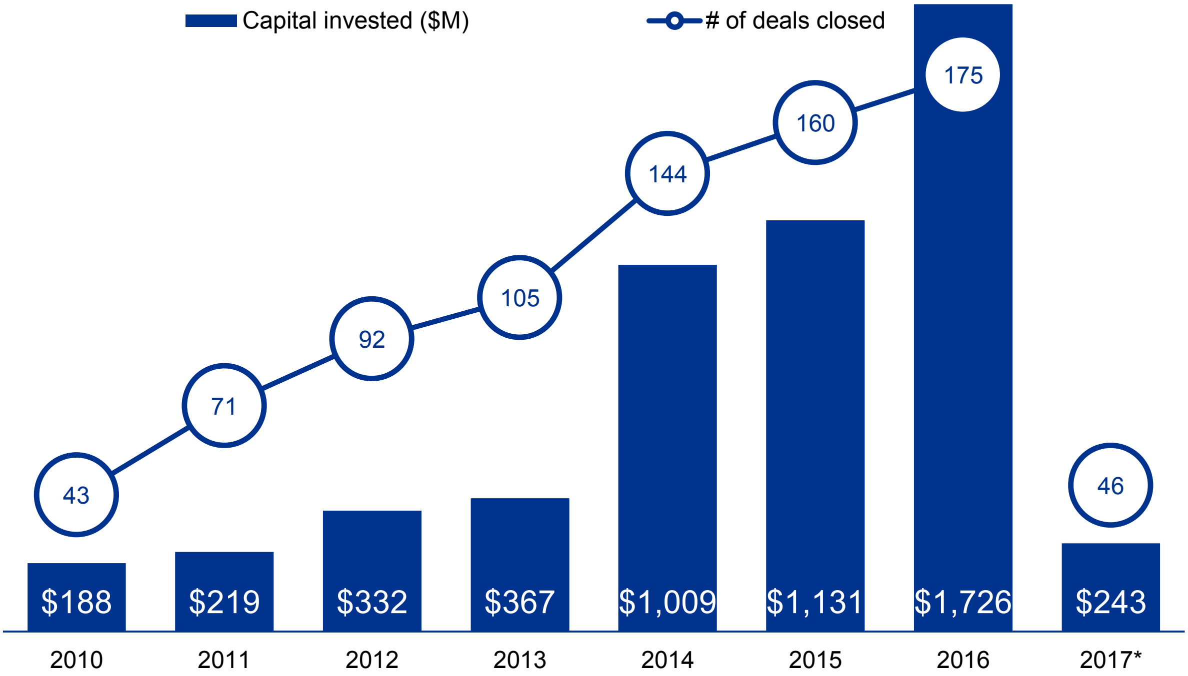
2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook , *as of 3/31/2017) April 27, 2017.

# Insurtech takes a breather

**Global venture investment in insurtech companies**
2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

After a steady march upward in both venture investment volume and value, to crest at 175 financings and $1.7 billion in value last year, 2017 is off to a slower start indicating more the effects of timing than any seismic shift in the insurtech space at large.

"The definition of insurtech appears to have broadened rather than deepened in Q1'17. This suggests more startups are getting involved in the insurtech ecosystem because of the opportunities inherent in the sector. To be successful, these fintechs will need to develop their value propositions much further. It's not enough to simply know change is needed. Solutions must also show why they are the best choice for change."

**Murray Raisbeck**
Partner, Insurance,
**KPMG in the UK**

# Global regtech investment on the rise

Since 2016, regulatory technology (regtech) has become a hot subsector in nearly every major region worldwide. 2016 saw over $994 million in global VC investment across 91 deals. This was a steep increase from 2015's $582 million and totals continue to rise. Q1'17 saw more than $219 million invested across 26 deals and signs point toward strong continued investment throughout the year.

### Responding to increased regulatory requirements

Over the past 8 years, considerable increases in regulatory requirements for financial institutions and insurers and their associated costs appear to have forced the industry to respond. Though software has long been used to address regulatory requirements, increased regulatory complexity and reporting, as well as an ever-changing regulatory environment, requires more sophisticated and digitized products. Regtech startups are rushing to fill this demand.

Regtech solutions are being used not only to transform labor-intensive manual compliance processes through automation, but also to contain risk and reduce costs through the effective processing of large volumes of data. Startup growth and investor interest is being seen in regtech solutions at all levels of complexity, from basic and enhanced process automation through to full cognitive technologies and AI.

### Regtech solutions driving business agility and growth

Though cost containment and regulatory compliance remain significant industry drivers, organizations are also waking to the opportunities for business transformation provided by agile regtech solutions. Such implications become increasingly important as financial services organizations turn their attention back to strategic growth initiatives and new product development, as well as widening regtech's target market to include insurers, challenger banks and other regulated industries.

Regtech is particularly well-positioned to contribute to the productivity agenda by helping to structure and draw meaningful, actionable information from large volumes of data. Once integrated into business processes, advanced regtech solutions can provide the capability to deliver against a broader remit, such as delivering a better customer experience, more robust consumer protections, improved transaction monitoring and real-time fraud detection.

### Global relevance with local hotspots

Regtech startups in the US and the UK are taking an early lead in the industry due to the regulatory pressures in local markets, as well as alignment with broader industry drivers. While much regtech startup and VC activity is centered in these areas, activity continues to increase in other locations around the globe. Regulators in areas like Singapore and Australia have been working to encourage regtechs through use of regulatory sandboxes and targeted funding opportunities for regtech startups.

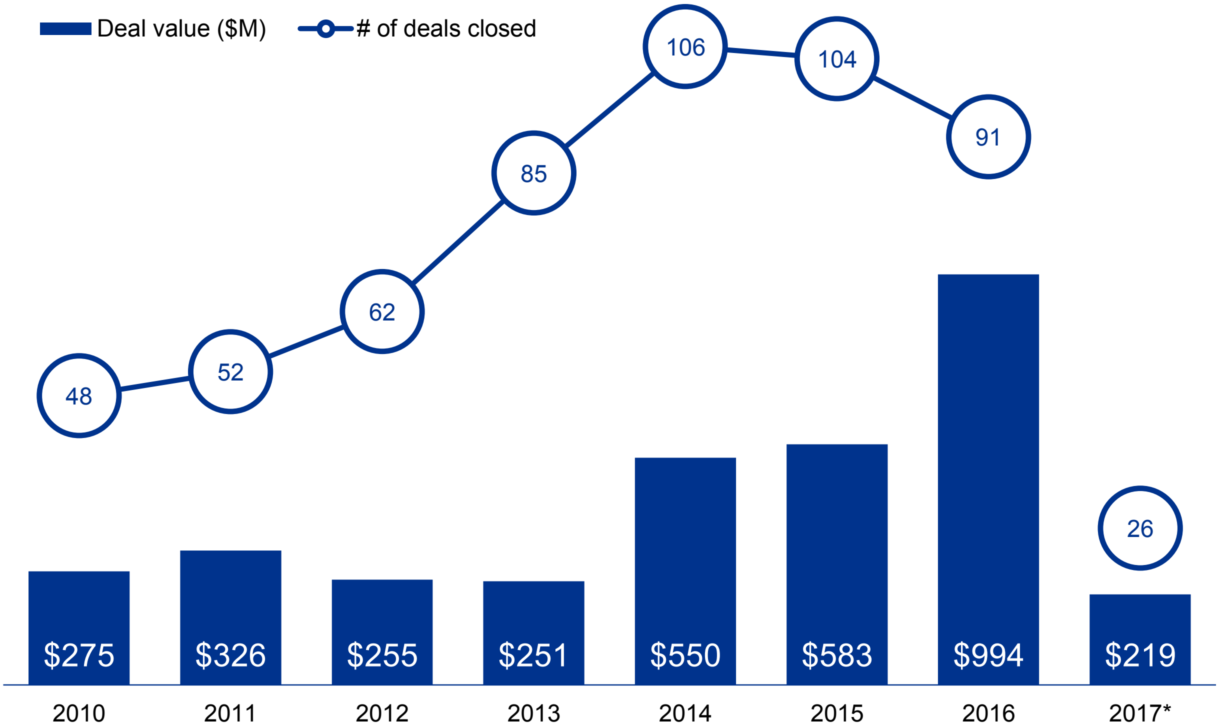
### Regtech trends for 2017 and beyond

Regtech is an area poised for significant growth in the coming years and VC interest and investment is expected to continue to increase. In the short term, more organizations will likely be looking to take advantage of low-hanging fruit around digital labor automation, increasing process efficiency and reducing cost for regulatory compliance and much immediate activity is expected to be centered on these areas.

However, the more significant industry impacts and larger investments are expected to come from implementation of technologies such as blockchain, AI, big data and cognitive. Regtech startups and solutions that have the potential to impact the customer experience, such as predictive analytics, are particularly well-positioned for future growth as organizations look to use agile technology solutions to achieve greater competitive differentiation and drive the growth agenda.

# Regtech VC invested still strong

**Global venture investment in regtech companies**
2010 — Q1'17

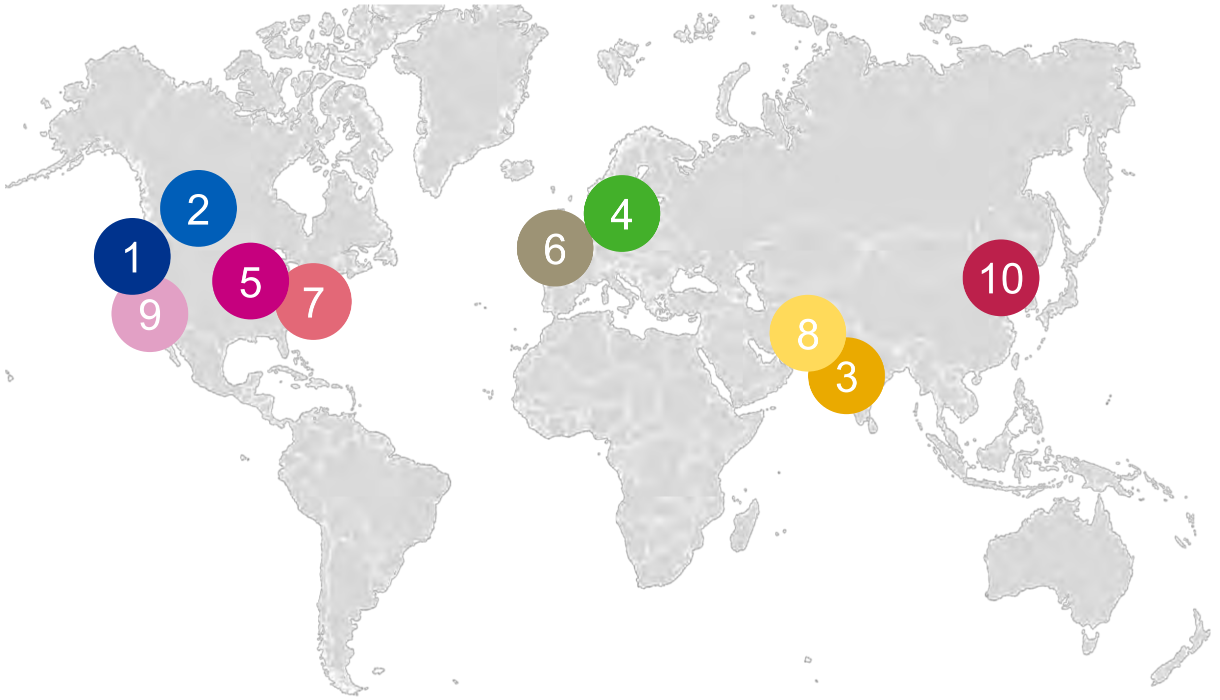



Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

"Increased complexity and the pace of regulatory change have led to the rise of regtech startups in the US and around the globe. Regtechs are collaborating with all types of financial institutions to enable them to accelerate data processing and reduce regulatory risk more cost effectively than ever before."

**John Ivanoski**
Global Head of Regtech,
**KPMG in the US**

# Top 10 global fintech VC, PE and M&A deals in Q1'17




1 **SoFi** — $453M, San Francisco
Lending
*Series G*

2 **DirectCash Payments** — $310.7M, Calgary
Payments/transactions
*M&A*

3 **Paytm E-Commerce** — $200M, Mumbai
Payments/transactions
*Early stage VC*

4 **iZettle** — $175.2M, Stockholm
Payments/transactions
*Series D*

5 **UniRush** — $147M, Cincinnati
Payments/transactions
*M&A*

6 **Funding Circle** — $101.1M, London
Lending
*Series F*

7 **Zenbanx** — $100M, Claymont
Personal finance
*M&A*

8 **TechProcess Payment Services** — $85.8M, Mumbai
Payments/transactions
*M&A*

9 **ProducePay** — $77M, Los Angeles
Lending
*Early stage VC*

10 **Yongqianbao** — $68M, Beijing
Lending
*Series C*

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

In Q1'17, fintech investment in the Americas hit

$1.8B

across

133 deals

# Fintech interest continues to grow outside of US

In Q1’17, total fintech investment in the Americas remained strong, with $1.8 billion invested across 133 deals. In line with previous trends, fintech deals activity in the Americas was driven by the US, although interest in fintech rose in other jurisdictions — particularly in Canada, which has been growing a number of fintech hubs.

### Partnering grows across Americas

Across the Americas, interest in fintech continues to expand beyond direct VC investment and the development of incubators and accelerators. Both traditional financial institutions and fintech companies showed interest in partnering models. A partnering model is a win-win for both parties when done well, with traditional corporates gaining assistance with expanding and enhancing their products and services and fintechs gaining access to customers and data on a much broader scale than what most could manage independently. In some jurisdictions, partnering models also included universities and governments in order to foster high-value innovation.

### Corporate VC participation slides in Q1’17, investment remains strong

Over the past year, corporate participation in fintech-specific VC deals has been significant in the Americas, with averages above 20% for the past three quarters. But in Q1’17, corporate VC participation dropped to15.2%. Despite decreased participation in fintech deal activity, total corporate VC investment reflected the third strongest quarter ever.

### Canada’s fintech sector continues to evolve and grow

Fintech interest in Canada continued to increase in Q1’17, with the federal government reaffirming its commitment to innovation in the country’s 2017 budget. At the provincial level, Ontario introduced a regulatory sandbox for fintech — although the sandbox is under the purview of the Ontario Securities Commission, the organization responsible for regulating public companies, making it somewhat limited in scope.

Within Canada, interest in blockchain seems to have remained stronger than ever and robo-advisory also gained traction. During Q1’17, Bank of Montreal introduced a robo-advisory service, making it the first big Canadian bank to do so. Looking ahead, investment in fintech is likely to grow in Canada, particularly around AI and machine learning.

### Interest in Brazil growing as optimism takes hold

Brazil saw very little investment in fintech this quarter after a very strong Q4’16. However, while Brazil’s economy took a hit in recent years, there are signs that the country may have reached a turning point — including falling interest rates. Investors appear to be showing optimism, with some voicing plans to invest in the turnaround. Fintech interest in Brazil is unique compared to the rest of the Americas, with less focus on customers and more on increasing efficiencies in the value chain of financial services. Should Brazil’s economy continue to improve, fintech will likely gain more space on investors’ radars.

### Mexico-based fintech focused on unbanked and underbanked

VC investment in Mexico was weak in Q1’17 as US investment into the country seems to have dried up amid uncertainties around the new US administration’s potential changes to trade policies. Over the quarter, fintech interest in Mexico continued to be driven by the needs of the unbanked and underbanked, with a focus on four key areas: payments, international transfers, mobile wallets and P2P lending. Some banks have recognized that fintechs can help move them forward more rapidly than internal innovation. These banks are working with fintechs to modernize services and operations in order to reduce costs — for example, introducing auto-banks with screen-based services supplemented by a connection to bank staff via telephones. With the cost of investment in Mexico quite low compared to the US, further fintech investments are likely over the next few quarters.

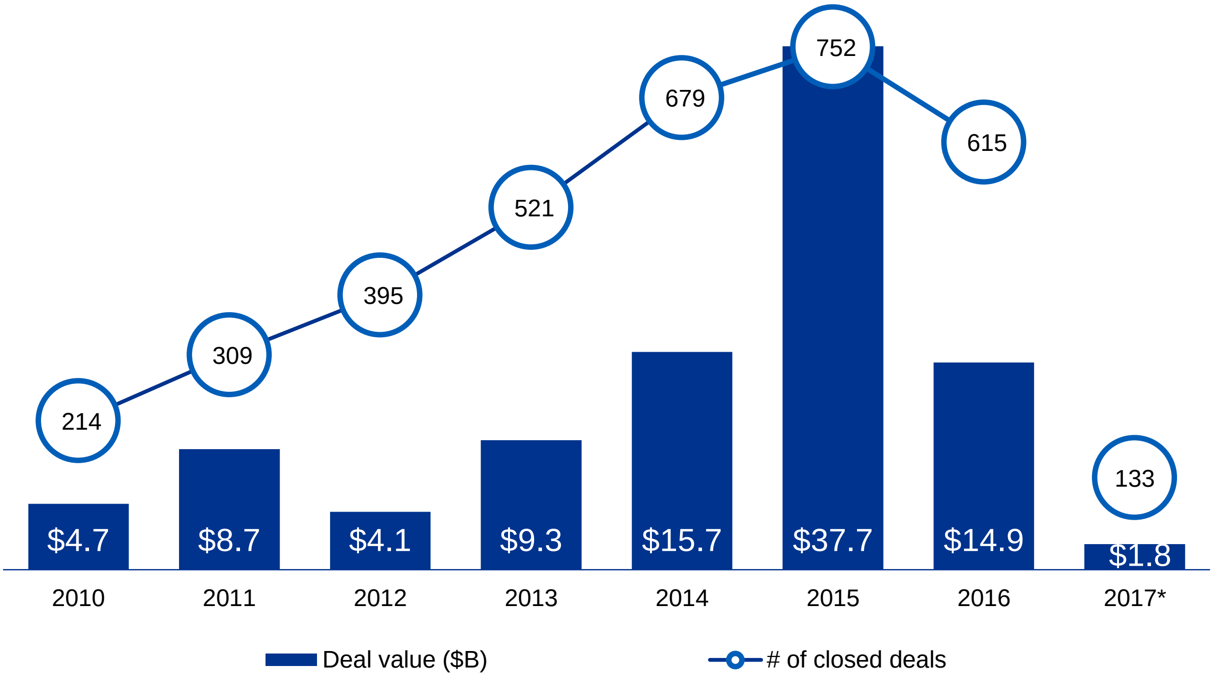
### Trends to watch in the Americas

Investor interest is expected to continue to grow across the Americas — with an ongoing focus on the underbanked and unbanked in much of Mexico and Latin America and on activities like regtech, AI and machine learning in the more mature jurisdictions.

## Value remains strong as volume slides

### Fintech VC, PE and M&A activity in the Americas

2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

After 3 very active years, overall investment within the fintech space is on a slower pace, returning more toward pre-2014 levels in both value and volume. Timing certainly played a factor in Q1'17's more sedate pace, as well as the coincident booms in both M&A and venture deal making that have since somewhat subsided.

"Q1'17 may have been quiet for fintech investment in Mexico, but interest is still evident. The country continues to be a great place to invest because the cost of investment compared to the US and elsewhere isn't as steep. It is much lower risk, but the potential for reward is high — particularly for companies that can attract Mexico and Latin America's large unbanked and underbanked populations."

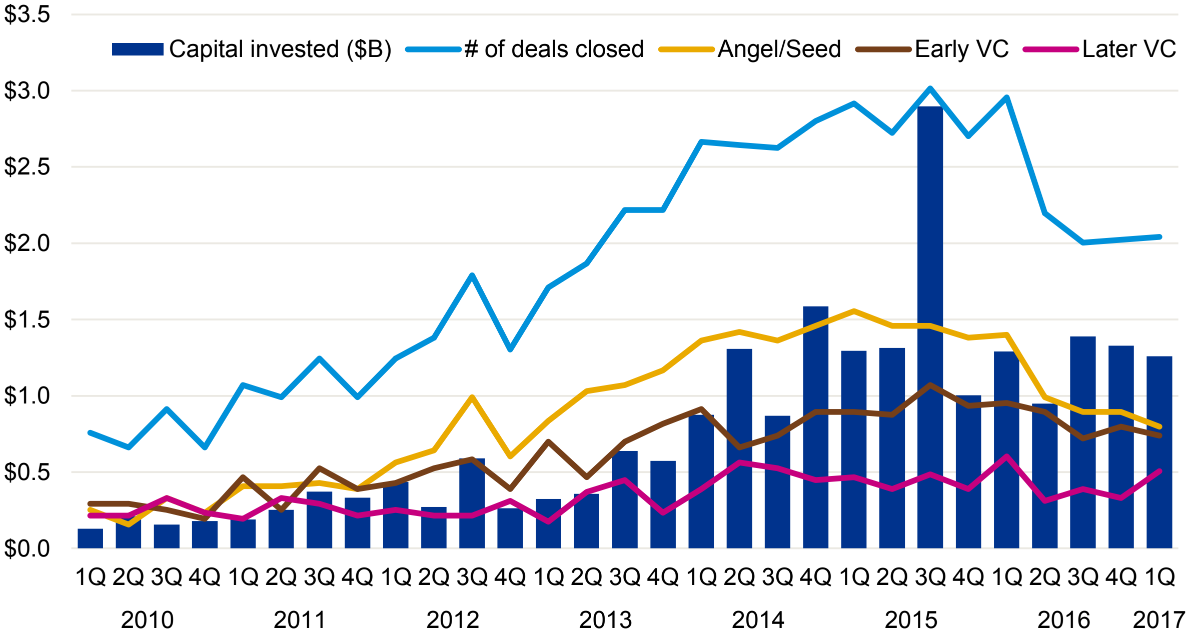
**Francisco Lopez**
Advisory Leader, Financial Services,
**KPMG in Mexico**

KPMG

# VC investment remains healthy

## Venture investment in fintech companies in the Americas

2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

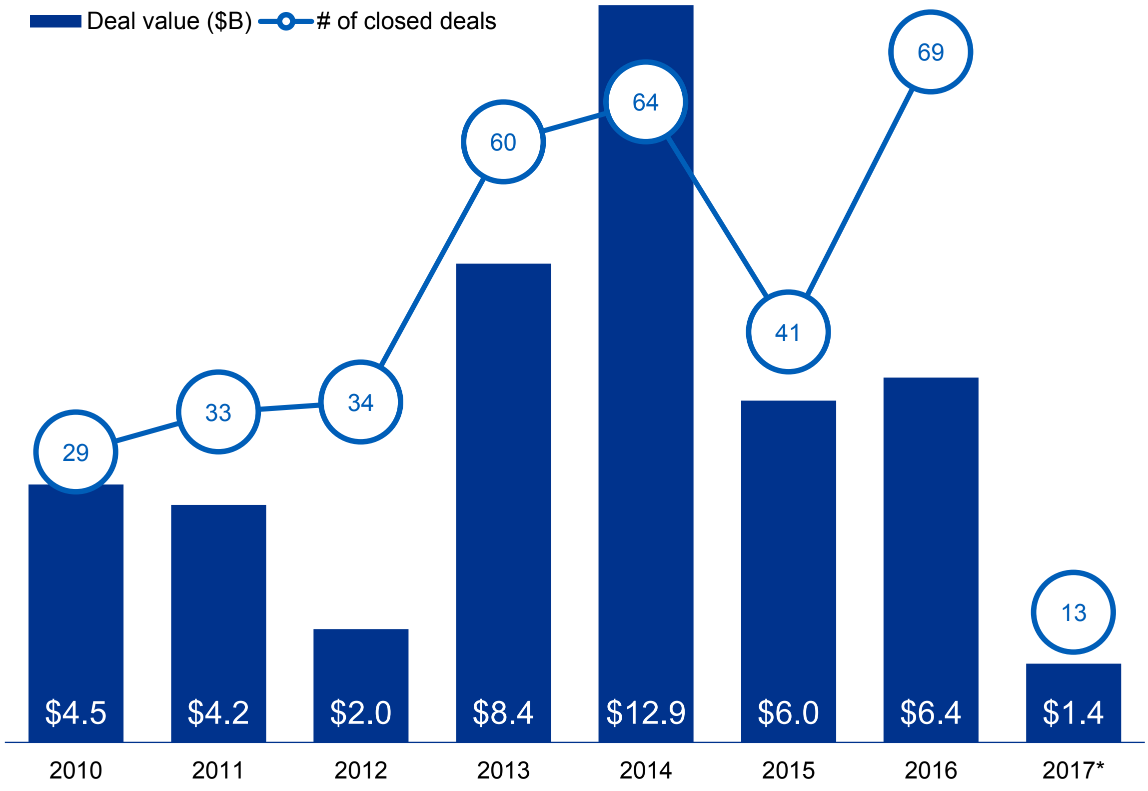
Primarily due to SoFi's outlier financing in the first quarter, VC invested was more than robust to start off 2017, although overall financing volume was also fairly healthy. Within the broader context of the venture industry being impacted by sliding angel/seed funding activity, the downturn in fintech is not much different, as late-stage deal volume actually rose quarter-over-quarter.

"Latin America and Brazil specifically are unique when it comes to investing in fintech companies. Rather than concentrating on ways to improve customer service, fintech startups appear to be focusing more on improving efficiencies across the value chain of financial services, from regulatory compliance to supply chain management."

**Oliver Cunningham**
Partner, Management Consulting and Financial Services,
**KPMG in Brazil**

# PE appetite still present

**Fintech PE activity in the Americas**
2010 — Q1'17

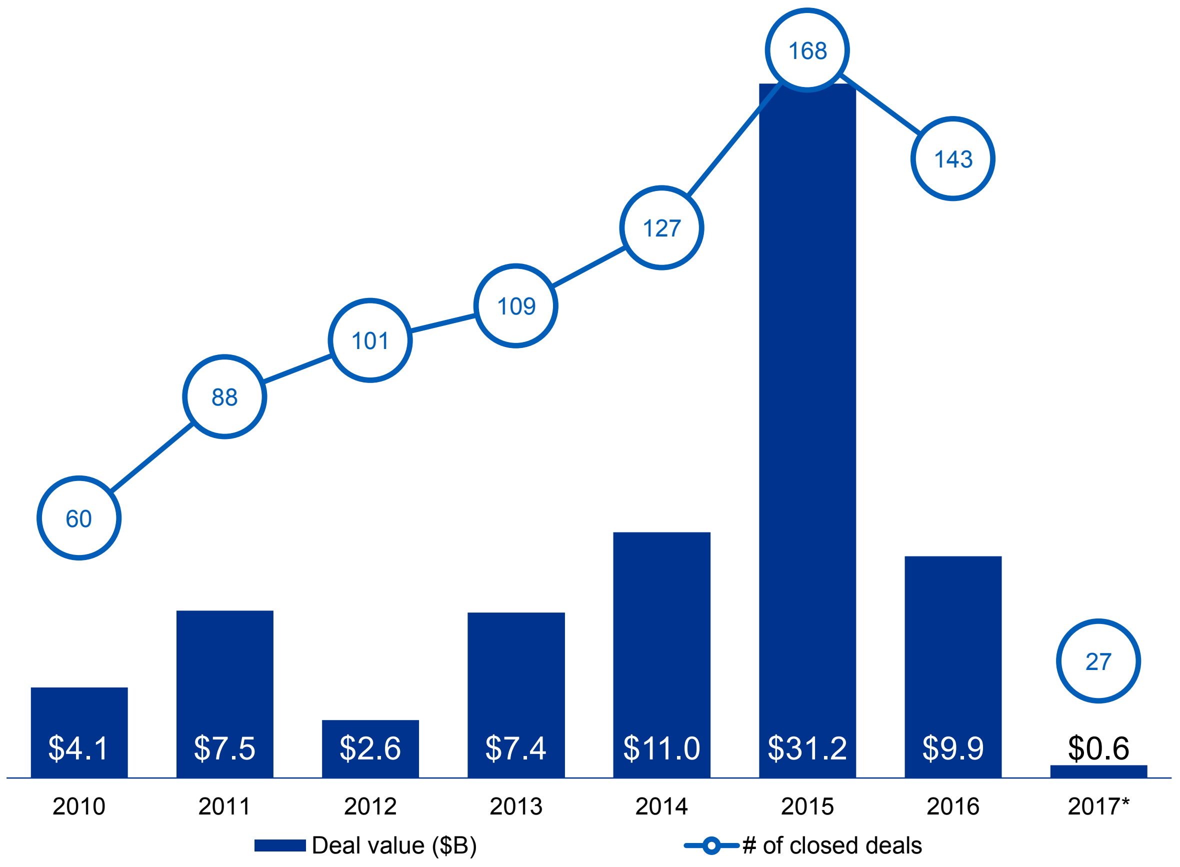



Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017. Datasets that consist of solely PE transactions have extrapolated deal values.

After a blockbuster year for PE investors in fintech across the Americas — in terms of volume at least, if not the total value of transactions — a cyclical downturn is somewhat to be expected. Although a handful of hefty buyouts led to a robust $1.4 billion in total value in Q1 alone.

# Sluggish start for M&A in 2017

**Fintech M&A activity in the Americas**
2010 — Q1’17



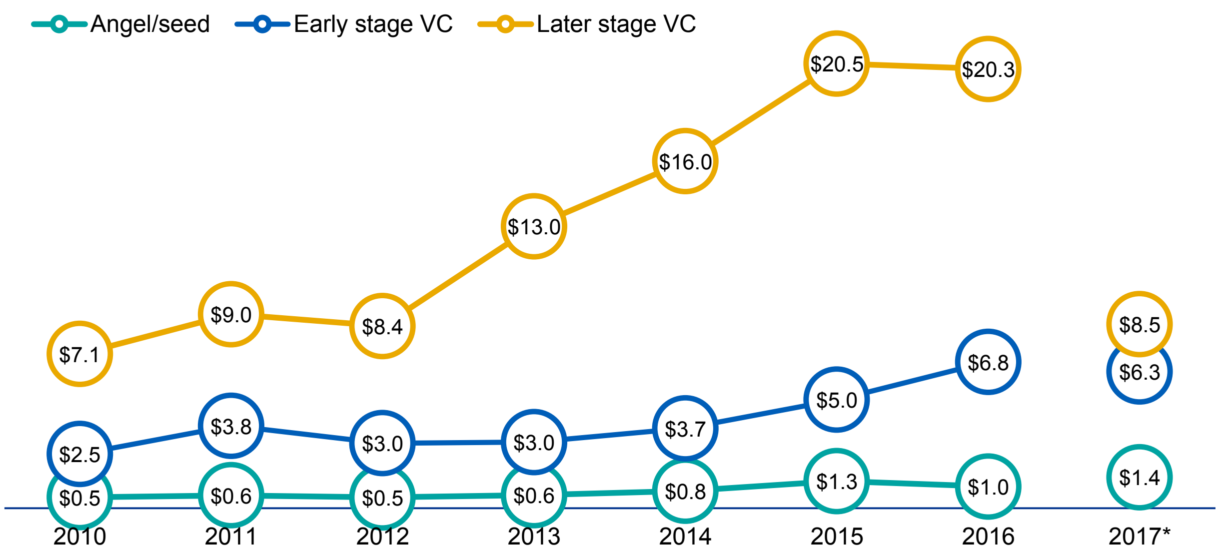

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

In historical context, the slower start to 2017 in M&A value and volume is more a reflection of temporary reversion to the mean, more than anything else. It will be interesting to see how the year pans out in light of anticipated consolidation among the tech industry as a whole.

# Financing sizes stay elevated, barring late-stage

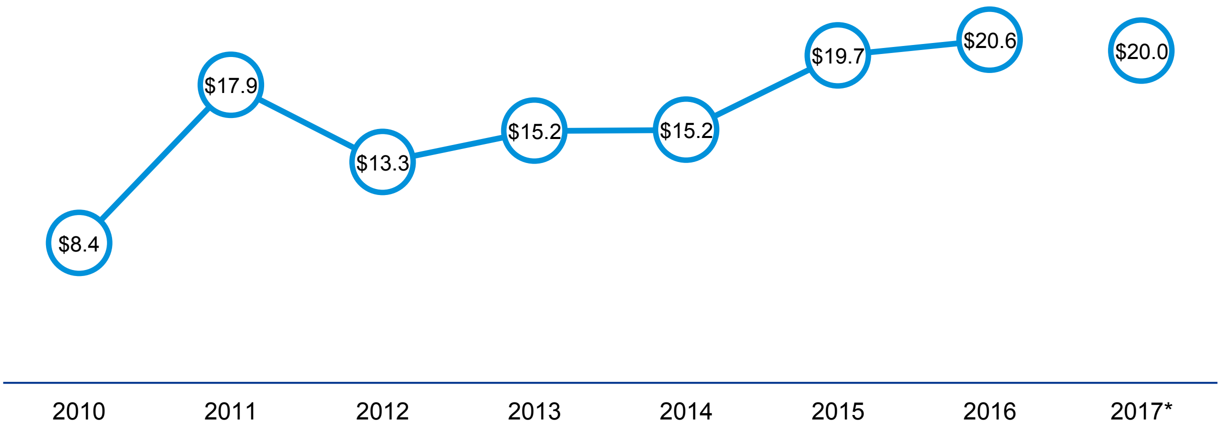
## Median fintech venture financing size ($M) by stage in the Americas

2010 — Q1’17




## Median fintech venture pre-valuation ($M) in the Americas

2010 — Q1’17

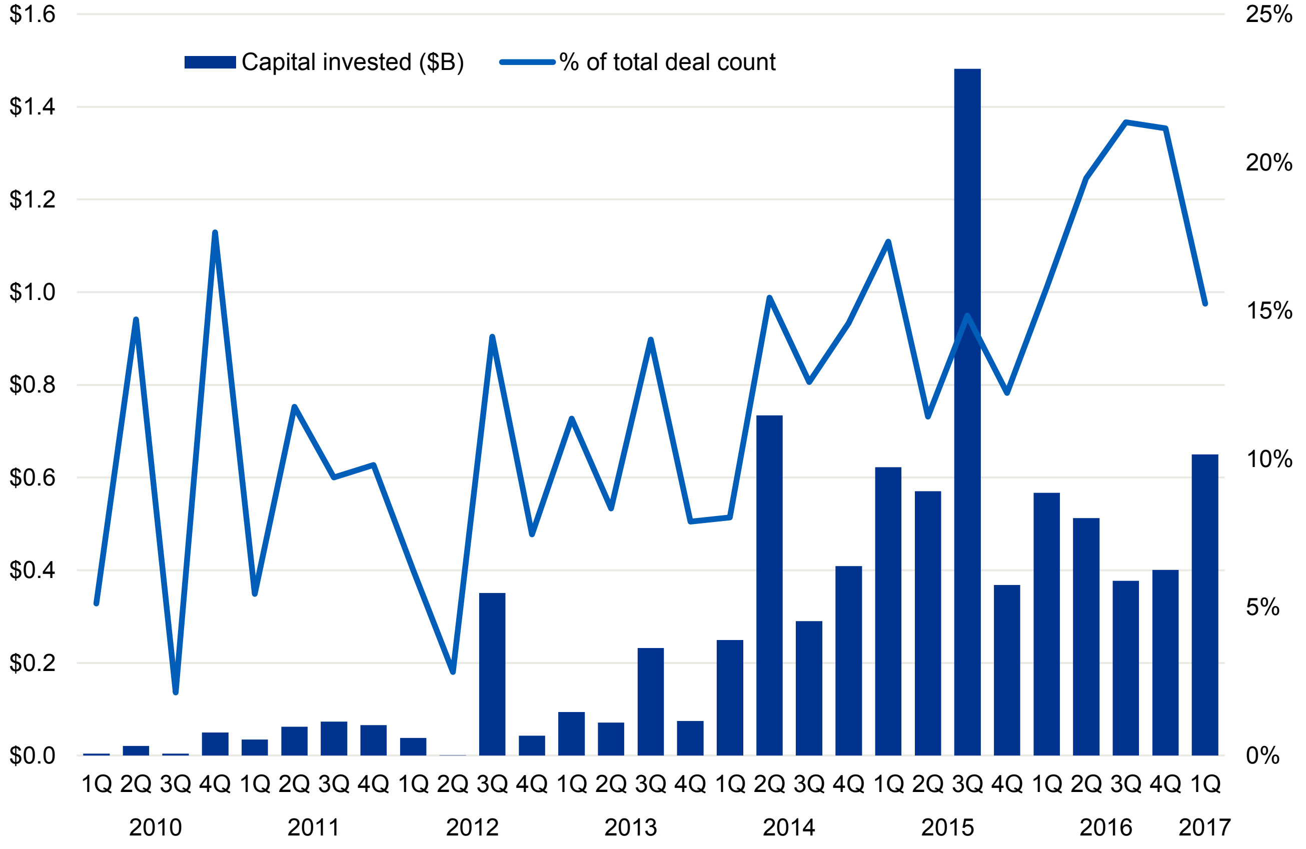



Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

Late-stage financing sizes may be down in the Americas, but pre-money valuations have essentially stabilized around $20 million, although more time will be necessary to ensure sample sizes are robust enough by stage. That said, VCs that are writing checks nowadays are still willing to deploy fairly hefty sums.

# Corporate venturing kicks off year strongly

**Fintech venture capital activity in the Americas with corporate participation**
2010 — Q1'17



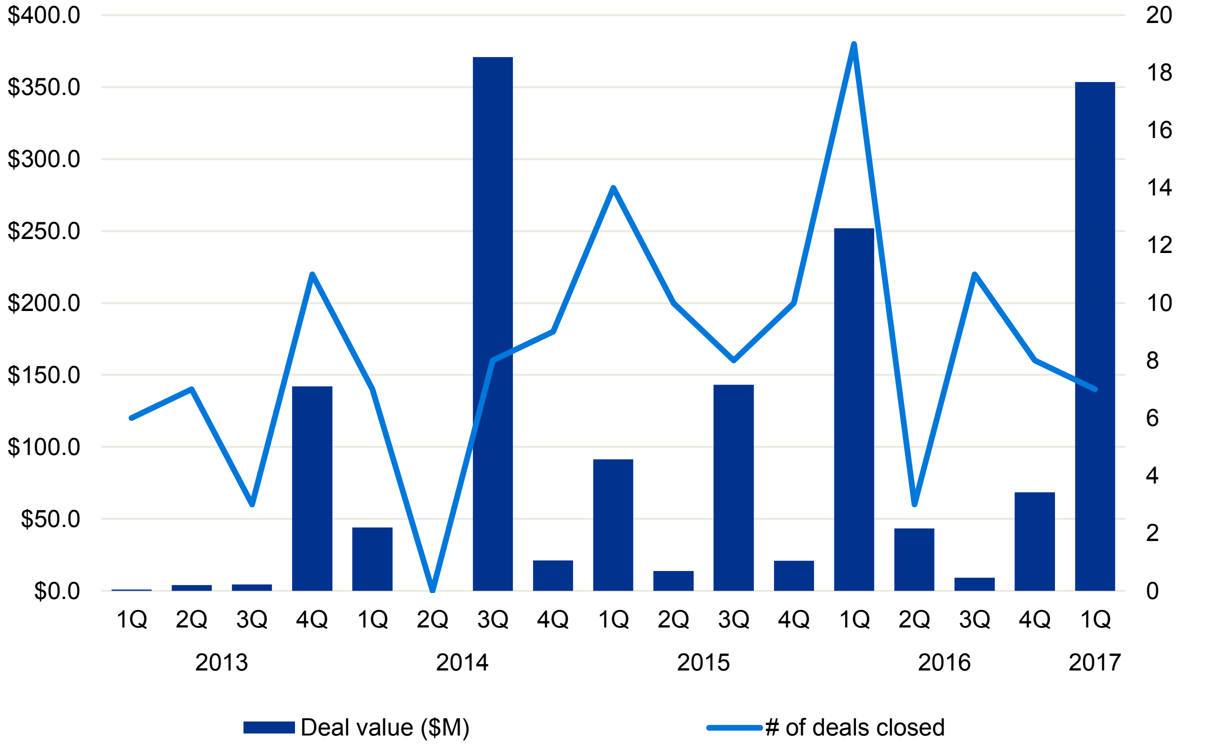

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Corporate VC arms appear to have rationales for investing beyond those of traditional venture firms, especially when it comes to certain sectors, such as fintech. That said, on a regional basis, overall VC volume within fintech decreases and to an extent timing plays a significant role — however, 15% of total VC activity is still on the historically higher end.

# M&A value driven by a single deal

**Fintech VC, PE and M&A activity in Canada**

2013 - Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Thanks to DirectCash Payments' purchase by Cardtronics, Canada saw a spurt upwards of total transactional value, even as activity remained lower on a historical basis.

"We're seeing a big shift towards enablement here in Canada and across the Americas. Previously, many fintech companies thought they would take over the world. Now, it seems they are changing their mindset - recognizing that partnering with banks and insurance companies can be a much faster path towards monetization."

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

***In Q1'17, US fintech companies received investment of***

# $1.5B

***across***

**124 deals**

# US fintech investment remains solid, with future growth expected

Fintech investment in the US held steady in Q1'17 with $1.5 billion invested across 124 deals, despite uncertainty related to the change in administration. While there appeared to be a growing sense of positivity among investors, many likely held back from making deals in order to assess whether promised changes to trade and tax policies would be implemented.

During the quarter, VC investment increased to $1.2 billion while deal activity also grew. The number of late-stage deals in particular increased, reaching the highest level since Q1'16. This uptick likely reflects an ongoing investor focus on proven fintech companies. Given the amount of dry powder in the market and indications that tax changes may be delayed until 2018, it is likely that interest and investment in fintech will pick up in Q2'17.

### Fintech companies maturing, attracting more investment

First-time financings for fintechs in the US dropped in Q1'17 — a sign, perhaps, of a maturing fintech sector, particularly in payments and lending. Historically, many investors used a diversification strategy for investments, providing smaller funding amounts to a broader range of companies. In recent quarters, however, some fintechs have risen above the competition, maturing into high potential organizations or even clear winners. This has led many investors to invest more into these companies rather than broaden their investments further. At the same time, fintech investors seem to have also focused on follow-on investments as a means of de-risking, given uncertainties related to future US trade and tax policies.

### Large US fintechs focusing on expansion

During Q1'17, larger US fintech players seemed to look toward expansion to fuel growth, raising funds to support geographic expansion, product or services expansion or both. SoFi was a prime example. The unicorn company's $453 million Series G funding round was aimed at supporting expansion into Australia and Asia. During Q1'17, SoFi also acquired Zenbanx as a means to expand its product offering to include more traditional banking services.

### Corporate participation remains high as investors focus on long term

Corporate participation in fintech investment remained high in Q1'17. With significant cash reserves, many corporates have taken an opportunistic approach to their fintech investments rather than focusing on short-term market drivers. Corporates appear to have also expanded the breadth of their fintech investments, working to develop partnerships, alliances, incubators, accelerators and digital labs, in addition to making VC investments or outright acquisitions. While this shift has been positive for the fintech evolution as a whole, it has also highlighted the need to find ways to measure the ROI of fintech initiatives to ensure they are aligned to long-term objectives.

### Robo-advisory moving beyond millennials focus

Robo-advisory continued to gain momentum in Q1'17 amid growing recognition that it is beyond the millennial demographic. As pure play fintech companies like Wealthsimple and Modern Advisor began to offer robo-advisory and hybrid advisory services targeted to higher net worth individuals, traditional financial institutions also made significant investments in robo-advisory to both attract millennials and retain their higher net worth clients. For example, Wells Fargo announced in March that it would begin providing Intuitive Advisor, a hybrid robo-advisory service, starting in June 2017.

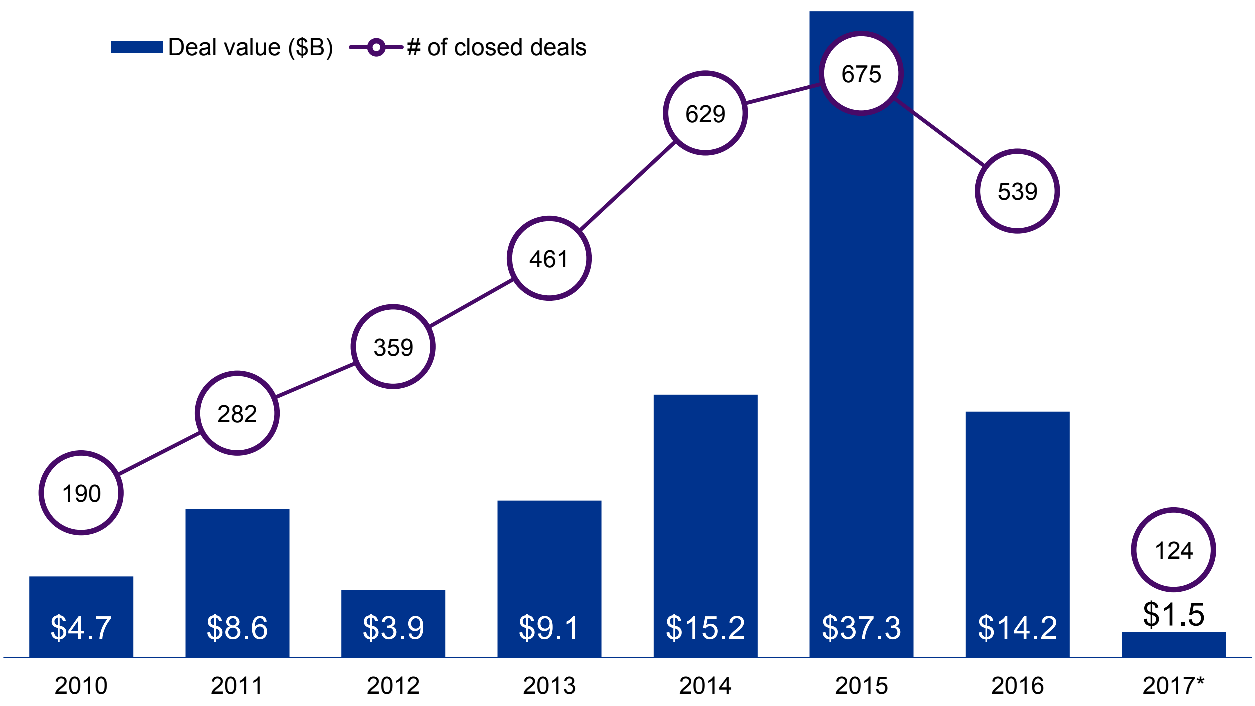
Traditional banks appear to have also looked to extend their hybrid services model to other banking interactions. In this vein, Bank of America opened a number of teller-less branches during Q1'17, which leverage videoconferencing to provide more complex services. Integration of robo-advisors could be the next step in the robo-bank evolution.

### Trends to watch in the US

Looking ahead to Q2'17, robo-advisory, AI and data analytics are expected to be hot investment areas, particularly for corporates looking to provide better customer experiences and more targeted services. Investment in insurtech is also likely to gain momentum, in addition to regtech, despite the US administration's promise to decrease regulations. On the regulatory front, advances related to the proposed fintech banking charters will be a key area to watch as changes could have a major impact on the fintech market.

# Deal activity high, but low investment levels

**Total US fintech investment activity (VC, PE and M&A) in fintech companies**
2010 — Q1'17



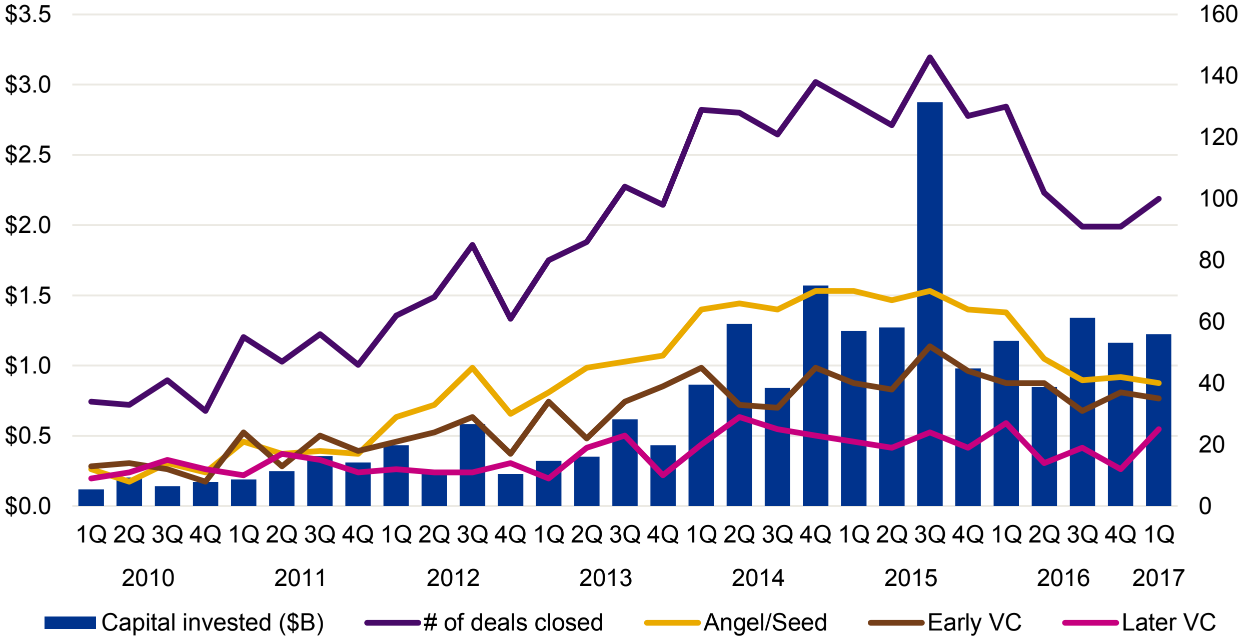

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

Considered in the context of the wider cooling in the venture industry as a whole, plus taking into account the fact that fintech remains a relatively youthful arena, the downturn in overall investment isn't so much a sign of waning interest in fintech in general, but a temporary phenomenon. What is more promising is that venture investment in particular bolstered Q1'17 tallies, with investors still willing to back promising fintech enterprises.

# Late-stage experiences an uptick

### Venture investment in fintech companies in the US

2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

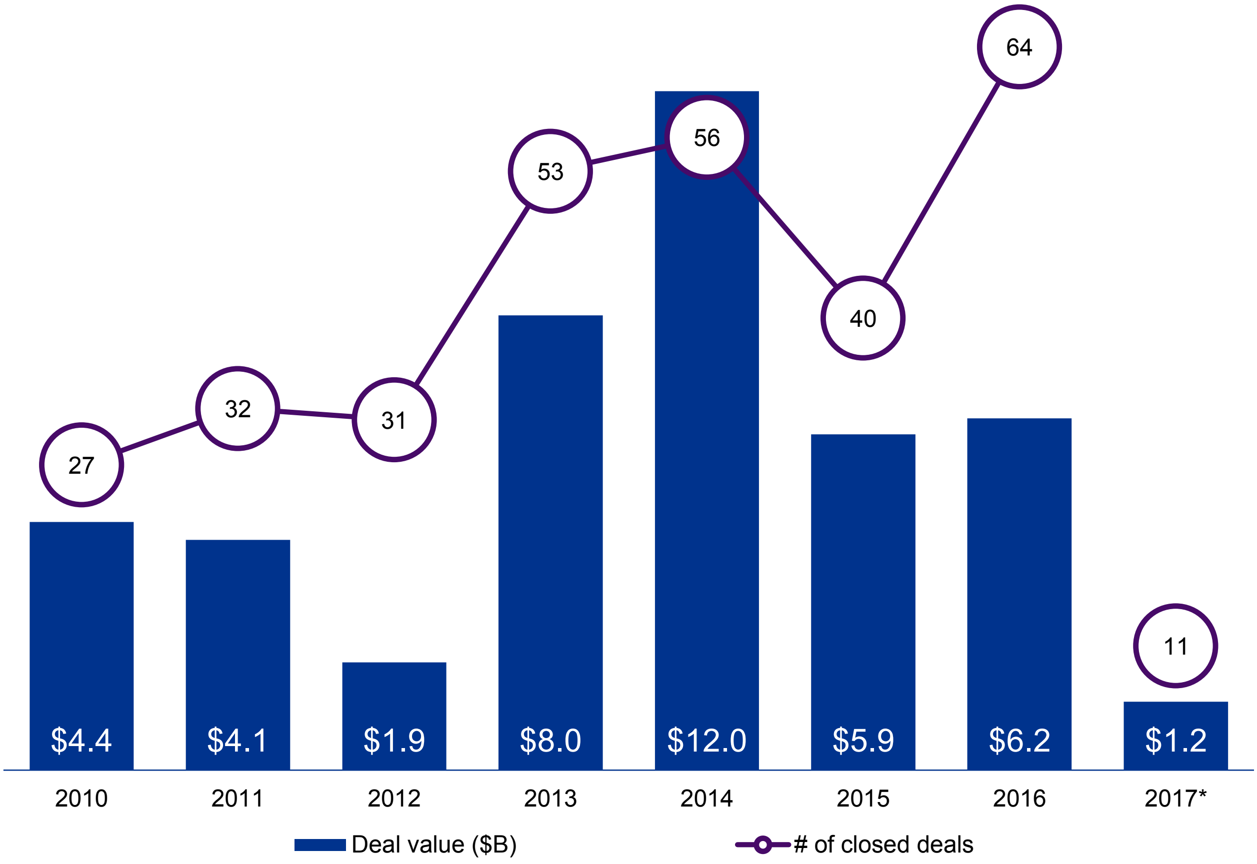
As certain fintech sub-verticals approach inflection points of either consolidation or emergence of clear front-runners, late-stage venture financing can often pick up, as investors flock to back proven businesses that need capital to cement expansive growth.

"Because of their unique business models and distribution channels, we're likely to see more well-established US fintechs pushing to expand in ways that few brick and mortar companies can. SoFi, for example, recently executed on plans for product expansion through the acquisition of Zenbanx and geographic expansion focused on Australia and Asia through a $450 million funding round."

**Conor Moore**
National Co-Lead Partner, KPMG Venture Capital Practice,
**KPMG in the US**

# PE firms dial down their pace

**Fintech PE activity in the US**
2010 — Q1’17



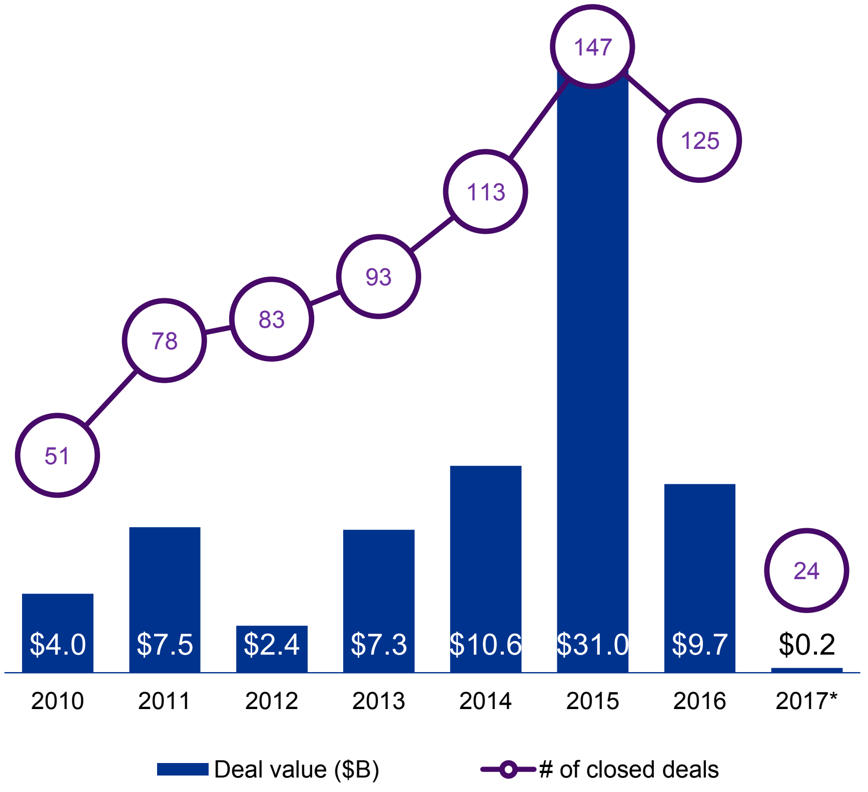

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017. Datasets that consist of solely PE transactions have extrapolated deal values.

It’s not just that technology-focused PE firms such as Silver Lake are making inroads in the late-stage venture scene, but that plenty of other PE firms have been cutting checks within the fintech arena specifically as of late, with a peak of 64 last year alone. The robust sum of $1.2 billion in total PE deal value in Q1'17 testifies to a continuing level of interest, even if deal volume is temporarily down.

# A temporary pause

### Fintech M&A activity in the US

2010 — Q1’17




As noted previously, fintech M&A is off to a slow start, with Q1'17 seeing a level that is more reminiscent of pre-2014 volume. That said, especially in a nascent arena, timing plays a significant role in overall M&A volume and consequently value trends. Further consolidation and acquisitions by incumbents to shore up their positions are only to be expected going forward.

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

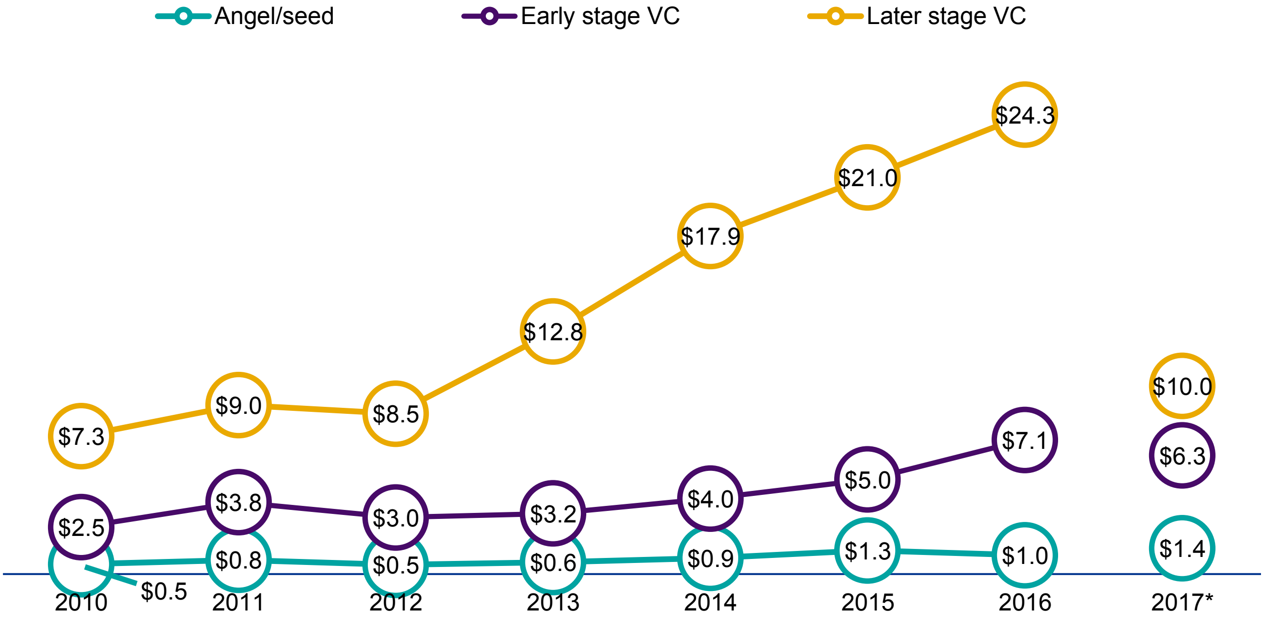
“Financial institutions are not just investing in fintechs, they are actively looking to integrate the capabilities of the fintechs they invest in into their value chain and business model. I think we’ll continue to see this across many areas of fintech into the foreseeable future.“

**Anthony Rjeily**
Principal, Financial Services Digital and Fintech Practice Lead,
**KPMG in the US**

# Across all stages, median deals stay high

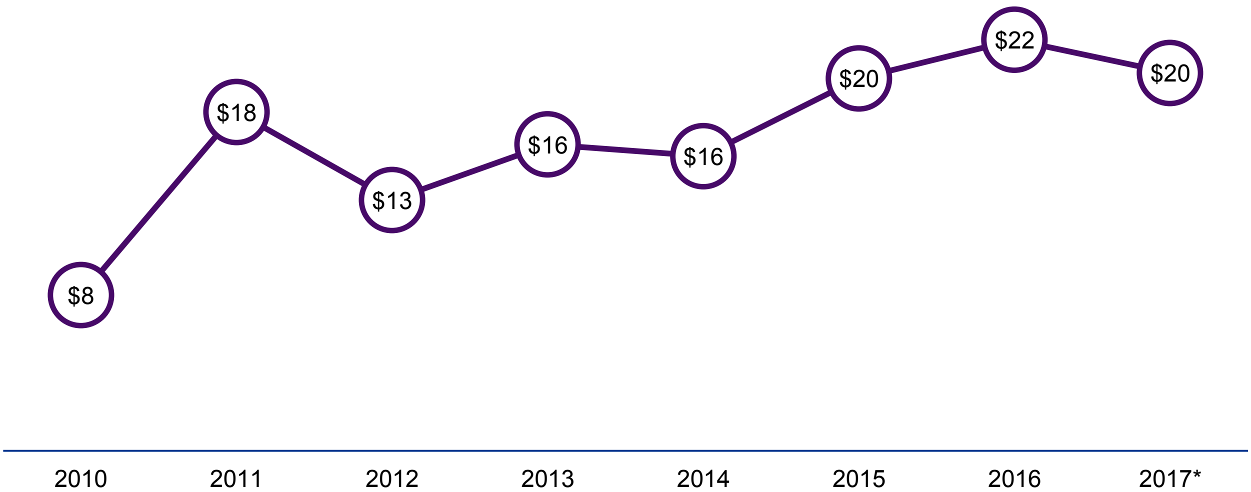
### Median fintech venture financing size ($M) in the US

2010 — Q1'17




### Median fintech venture pre-valuation ($M) in the US

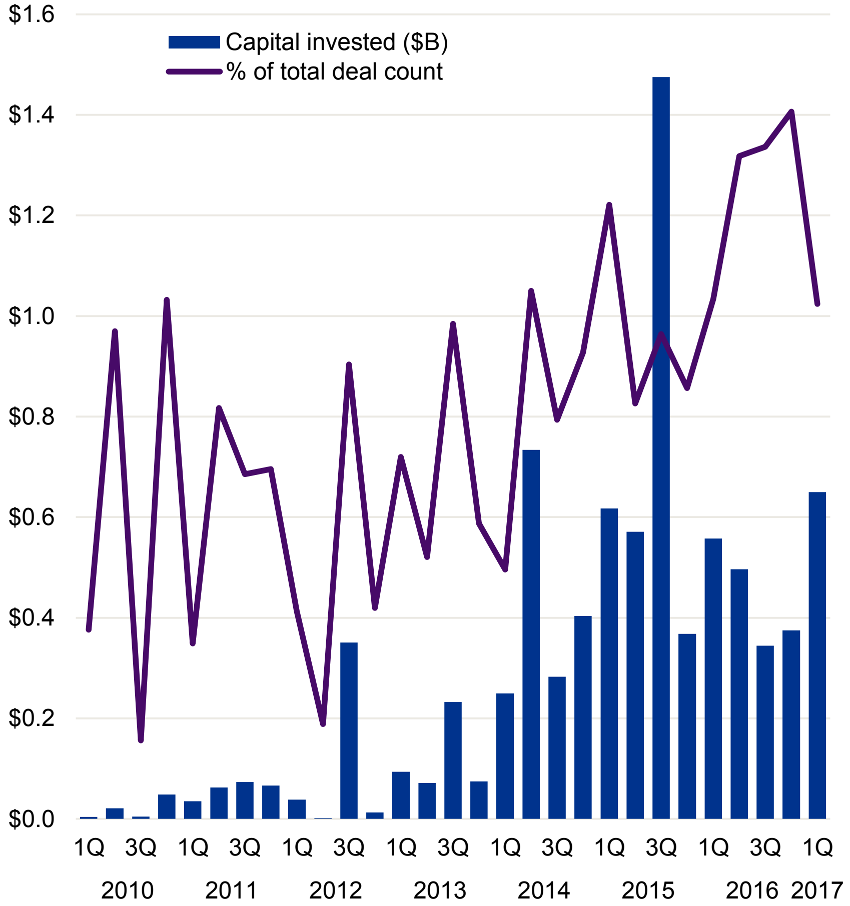
2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

# A drop to a still-healthy participation rate

**Fintech venture capital activity in the US with corporate venture participation**
2010 — Q1'17




The historical volatility in the rate at which corporate venture arms or corporation participation in fintech VC activity signifies the relatively limited number of players within the space more than anything else, plus the extent to which many strategic initiatives have focused on only a few fintech sub-vertical segments.

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

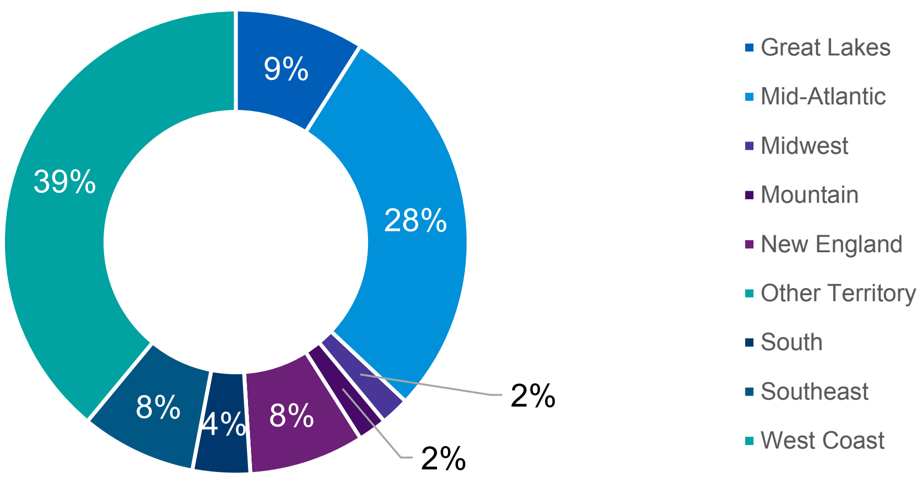
"Corporate investment in the US is evolving. It seems to be maturing away from innovation tourism toward making targeted fintech investments that can be integrated into long-term corporate strategy."

**Ann Armstrong**
US National Fintech Co-Leader,
**KPMG in the US**

# VC remains concentrated in traditional hubs

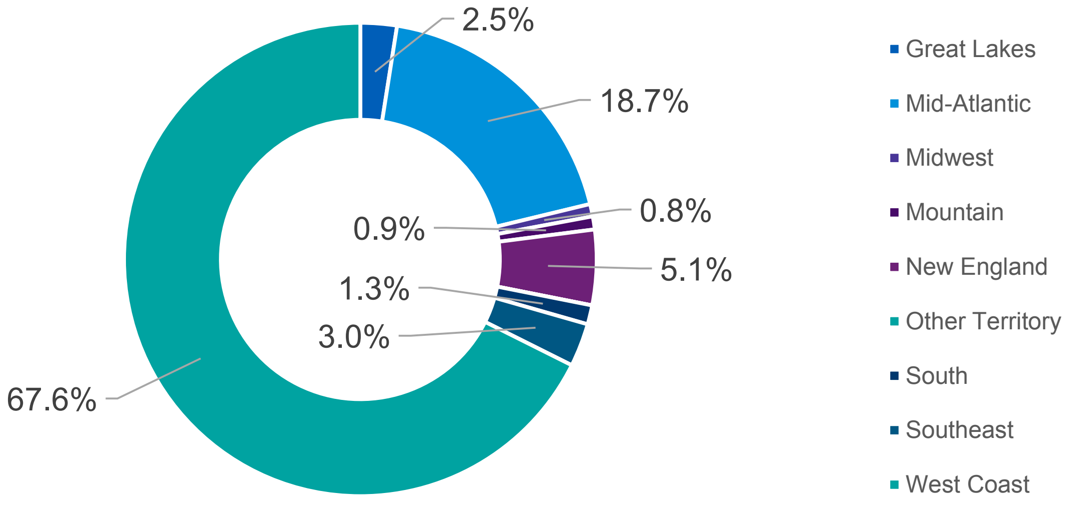
## Fintech venture investment (#) in the US by region

Q1'17



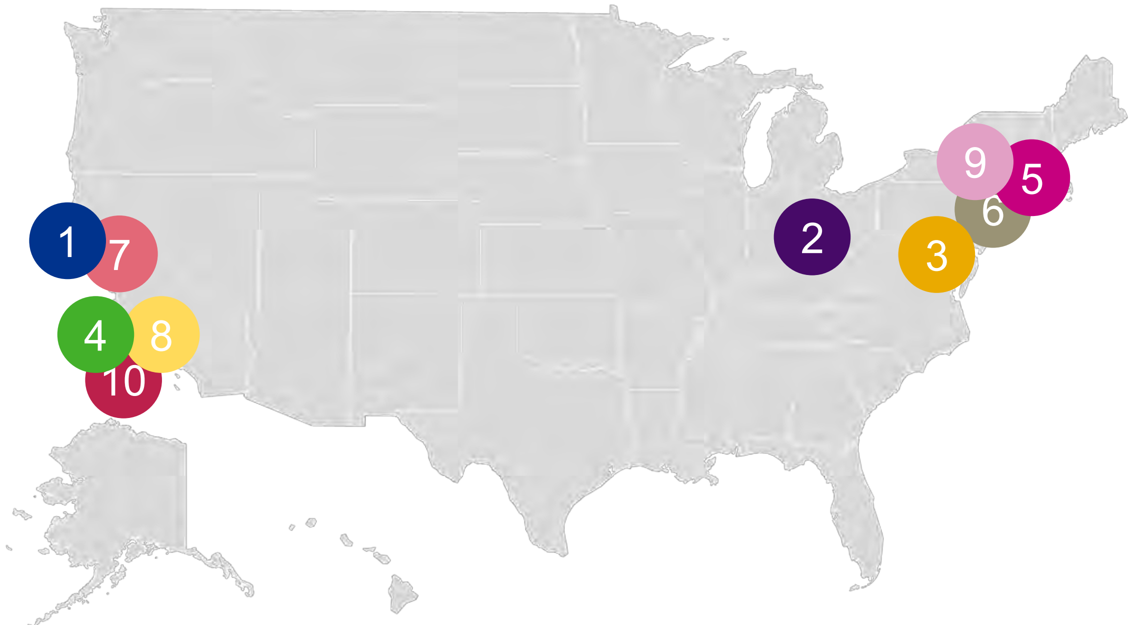

## Fintech venture investment ($) in the US by region

Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

# Top 10 US fintech deals in Q1'17




1 **SoFi** — $453M, San Francisco
Personal finance
*Series G*

2 **UniRush** — $147M, Cincinnati
Personal finance
*M&A*

3 **Zenbanx** — $100M, Claymont
Payments/transactions
*M&A*

4 **ProducePay** — $77M, Los Angeles
Lending
*early-stage VC*

5 **Kensho** — $50M, Cambridge
Institutional/B2B
*Series C2*

6 **CommonBond** — $37.5M, New York
Lending
*Series D*

7 **Upstart Network** — $32.5M, San Carlos
Lending
*Series B*

8 **Tala** — $30M, Los Angeles
Lending
*Series C*

9 **TruMid** — $27.6M, New York
Investment banking/capital markets
*Series E*

10 **InvestCloud** — $25.2M, Beverly Hills
Wealth/investment management
*Series C*

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

**In Q1'17, investment in fintech companies in Europe hit**

# $880M

**across**

**89 deals**

# European fintech market thriving on diversity

Overall fintech investment in Europe grew in Q1'17, with $880 million invested across 89 deals. Of these totals, VC investment accounted for $610 million across 67 deals — the strongest quarter of European VC fintech investment in recent memory.

Brexit-related uncertainties appeared to have little impact on Q1'17 investments, with the UK accounting for half of the top ten European investments. The country also continued to attract global VC investment — with London-based cross-border payments company CurrencyCloud raising $25 million from Google Ventures. This investment represents Google Venture's first foray into the European VC fintech market. While Germany hosted three additional deals in the top ten, Stockholm-based iZettle's $175 million raise was the largest this quarter, highlighting the growing depth of the Nordic fintech ecosystem. Smaller fintech hubs also continued to sprout in locations like Israel, Poland, the Czech Republic and Slovakia.

**Median deal sizes up as investors focus on later stage deals**

Median fintech deal sizes in Europe continued to increase, reaching $3.17 million during Q1'17. This reflected a growing shift toward investments in more mature fintech companies with proven business models — investments that can be seen as a safe harbor in uncertain times. Well established payments and lending companies accounted for many of the largest deals, including $100 million plus rounds to iZettle and Funding Circle.

**Rapidly approaching PSD2 fostering fintech activity**

The 2018 implementation of PSD2 is quickly approaching. In Q1'17, there was a strong push from both traditional corporates and fintechs to understand the ramifications of PSD2 and how to take advantage of related opportunities. It is expected that over the course of the next 3 quarters, investments related to PSD2 business models will continue to increase.

**German-based fintech ecosystem continues to evolve**

Germany saw a significant amount of investment in fintech during Q1'17, hosting four of the top ten regional fintech deals, including rounds to banking platform provider, Solarisbank, and deposits marketplace, Raisin. Q1'17 also saw an increased focus on business-to-business fintech opportunities, likely reflecting both the desire to take advantage of PSD2 and growing recognition that fintechs can enable business transformation.

**Challenger banks strong in UK**

Q1'17 saw a number of significant raises by challenger banks, including a $103 million round by Atom Bank and Monzo's$27.5 million Series C round. These rounds continued an 18-month trend that has seen the UK give rise to more challenger banks than most other jurisdictions. The growth of challenger banks shows the value of government support for fintech, with both the UK government and the FCA focused on encouraging greater competition.[1]

The FCA appears to have also continued efforts to build bilateral partnerships with regulators internationally. In Q1'17, the FCA announced a partnership with the Ontario Securities Commission in Canada. With Article 50 now triggered and with the Brexit process underway, these types of initiatives may be critical to the success of the UK's fintech ecosystem in a post-Brexit world.

**Ireland gaining prominence on the fintech radar**

Ireland continued to grow as a fintech centre in Q1'17, with numerous initiatives focused on showcasing the country as an alternative to London. Q1'17 saw a number of mature fintech companies in the region announce expansion plans, including client lifecycle management company Fenego. The country has also successfully attracted a number of fintechs to set up regional offices in Ireland, including Kabbage. Additional fintech investment is expected over the next few quarters as the country continues to market its ability to be a bridge to both the UK and Europe.

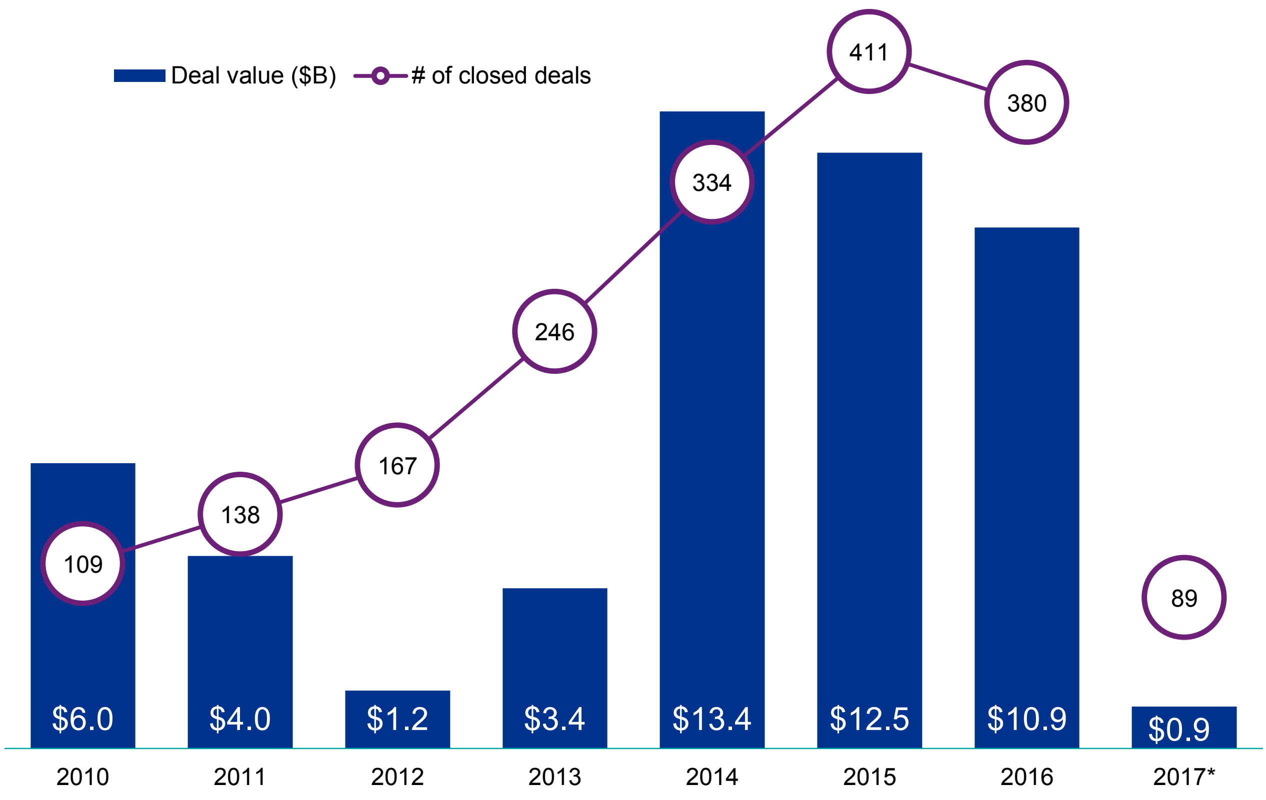
**Trends to watch for in Europe**

PSD2 will likely continue to drive fintech investment over the next few quarters in Europe as the implementation deadline approaches, with activity expected both on the API front and on the development of niche offerings that leverage open data. Investment in regtech and insurtech is also expected to grow.

1. https://www.ft.com/content/3068994c-bf71-11e5-9fdb-87b8d15baec2

# Volume resilient, value falls

**Total Europe fintech investment activity (VC, PE and M&A) in fintech companies**
2010 — Q1'17



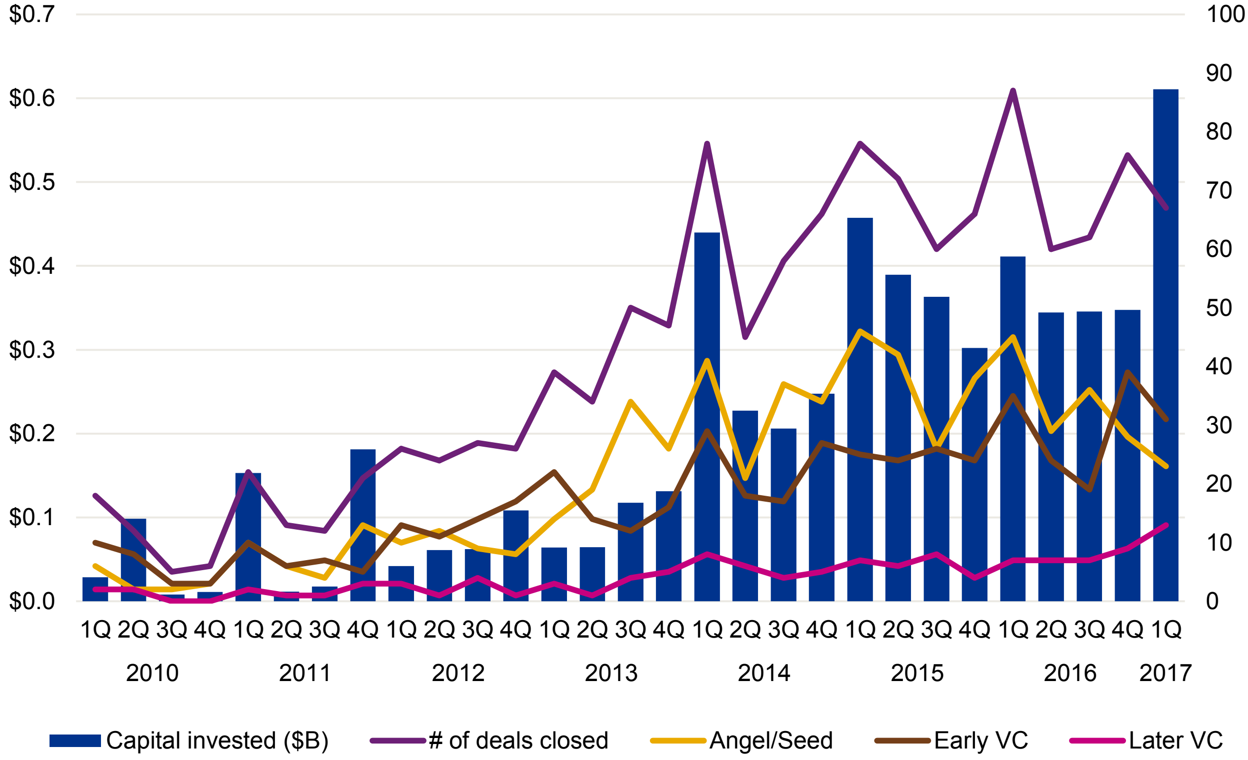

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

Skewed massively by outliers, 2016 fintech transaction value was so immense that 2017 had a tough act to follow. Although volume remained healthy on a historical basis, total deal value in the first quarter of the year looks relatively paltry compared to the prior year. However, apart from temporal factors, as seen by the massive financings of companies such as iZettle and Funding Circle, as well as the pending purchase of ConCardis by Advent International and Bain Capital, there remains plenty of appetite for European fintech companies.

VC investment reaches highest level

### Venture investment in fintech companies in Europe

2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

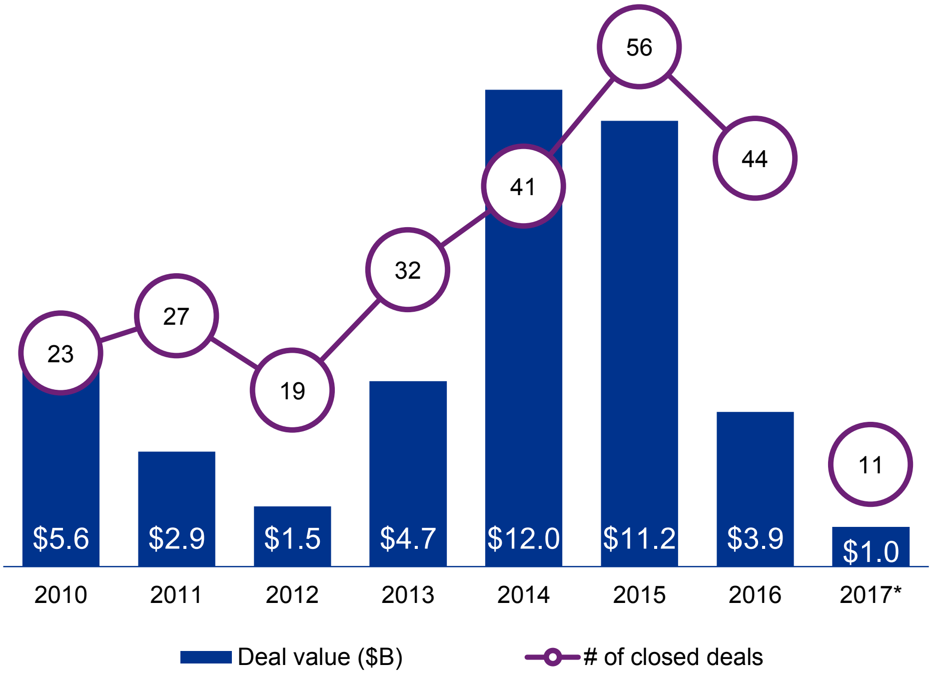
"VC investment in Europe reached a new high in Q1, highlighting the strong opportunities present in the sector. Corporate participation is expected to help keep this trend going as many traditional companies are looking to take advantage of innovations."

**Arik Speier**
Co-Leader, KPMG Enterprise Innovative Startups Network and Head of Technology,
**KPMG in Israel**

# PE remains on pace, by and large

## Fintech PE activity in Europe

2010 — Q1'17




PE activity within the European fintech scene remains on pace to match last year's tally. Although it is more than likely that either timing or cyclicality due to the relatively lower supply of worthwhile targets, could lead to lowering buyout volume in the quarters to come.

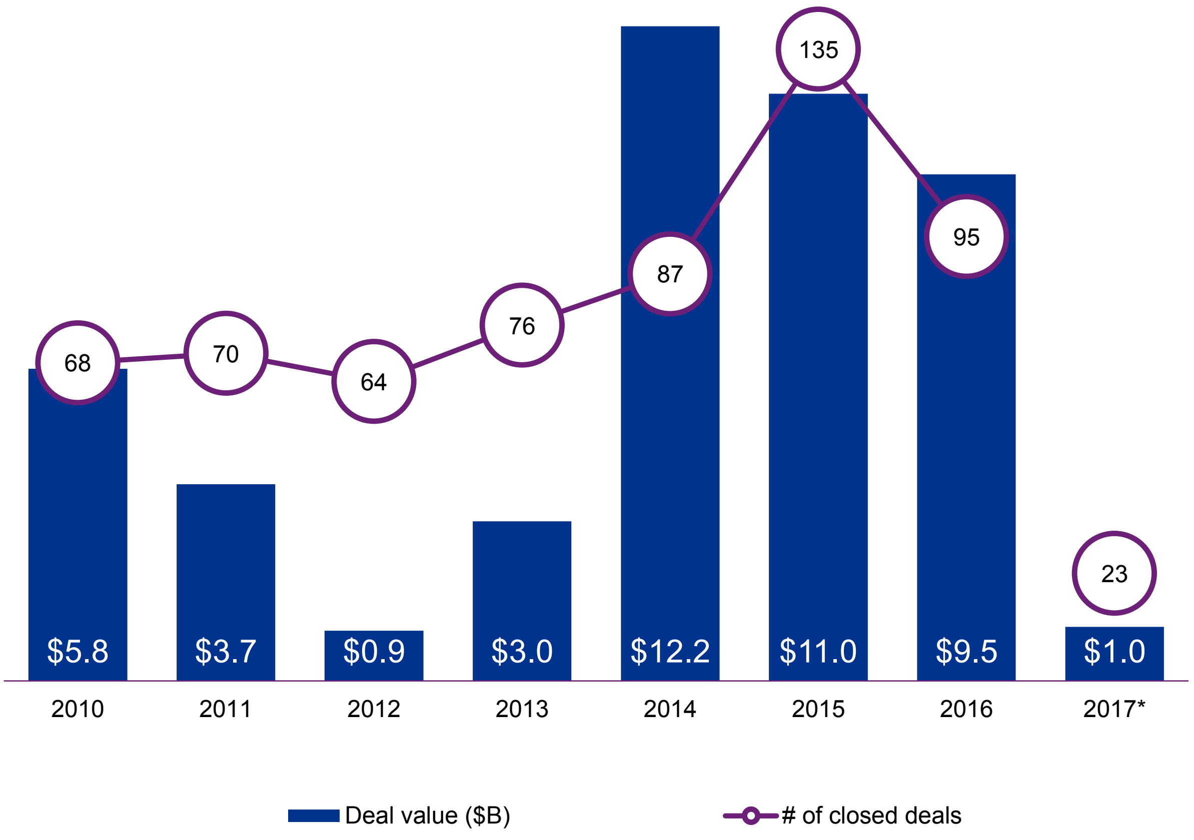
Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017. Datasets that consist of solely PE transactions have extrapolated deal values.

"Challenger banking is starting to come of age in the UK. Over the last 5 years, there was a flurry of new startups. Now, we're starting to see several of them come into their own. Fintechs, like Monzo and Starling, are now seen as legitimate financial institutions with bank licenses and corporate capitalization."

**Tom Roberts**
Director, Banking,
**KPMG in the UK**

# M&A drops by a fair margin

**Fintech M&A activity in Europe**
2010 — Q1'17

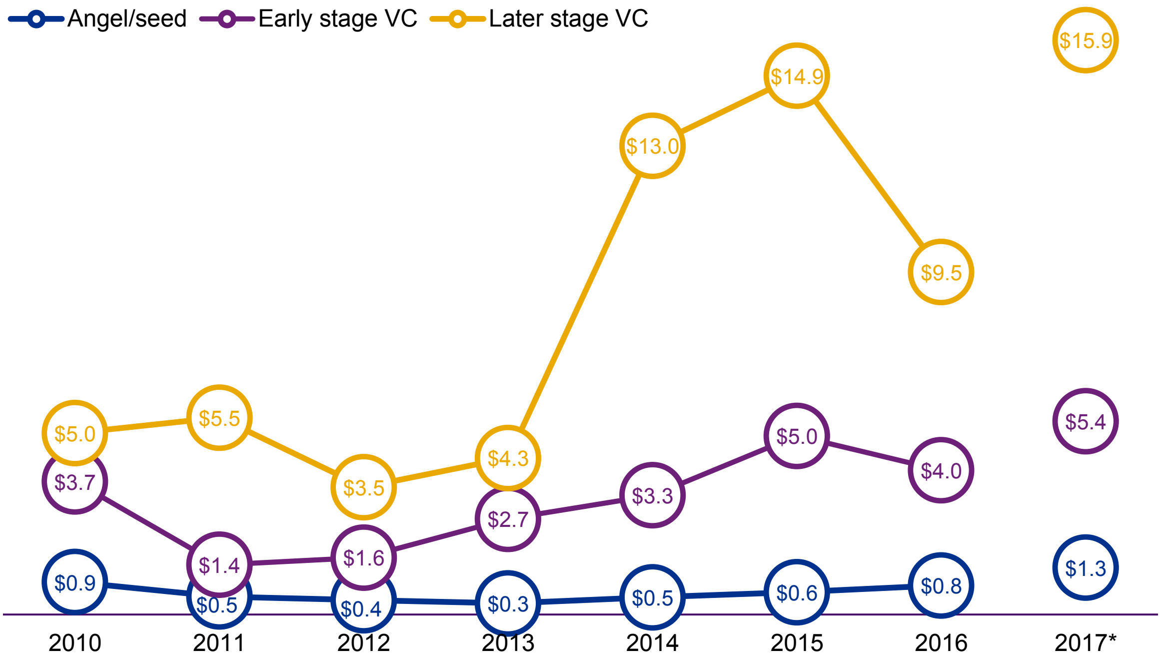



Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

After a sudden surge in activity in 2015, M&A returned to a level that was well within historical bounds. Value declined considerably in a shift more attributable to a dearth of mega-deals than anything else.

# Financing sizes up across the board

**Median fintech venture financing size ($M) in Europe**
2010 — Q1’17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

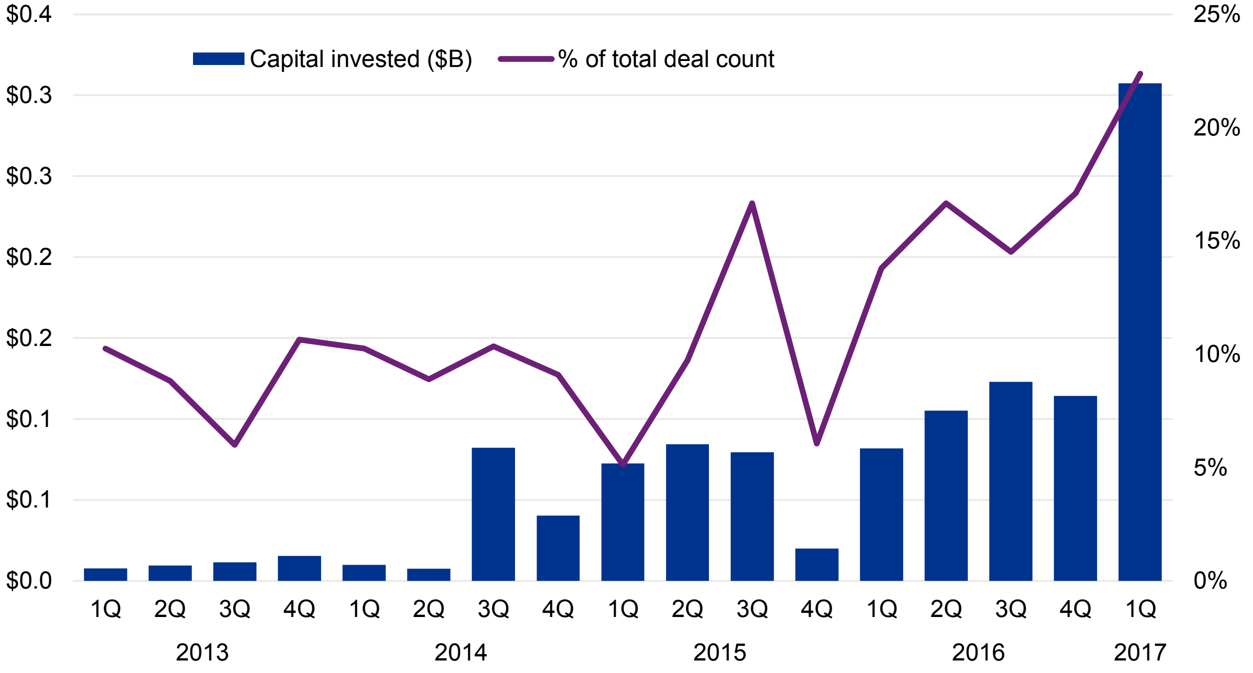
Median financing sizes hit new highs across all stages, signifying the level of pent-up demand for those fintech companies deemed safest by VC investors.

“The deadline for implementing PSD2 is now fast approaching. As we move through 2017, expect to see new business models evolving to leverage open data and to capitalize on the opportunities presented."

**Anna Scally**
Partner, Head of Technology and Media and FinTech Leader,
**KPMG in Ireland**

# Corporate VC at all-time high

**Fintech venture activity in Europe with corporate VC participation**
2013 — Q1'17



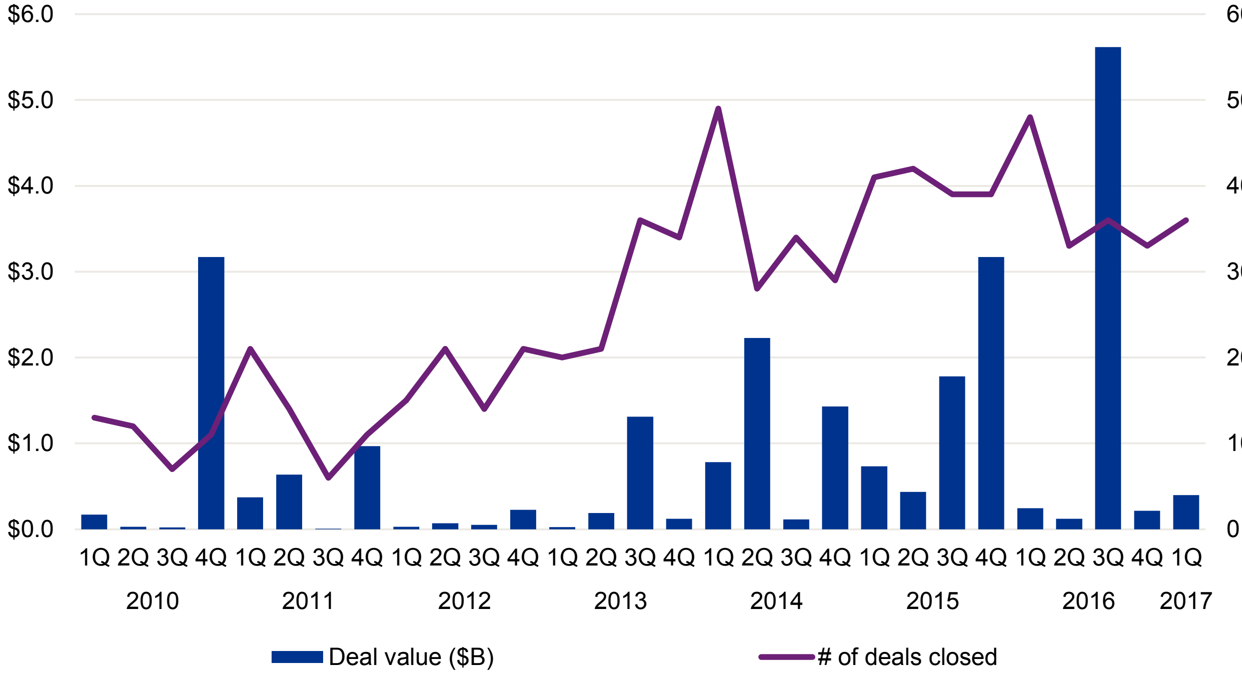

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

The upward spike in the proportion of corporate VC involvement, especially in the European scene, is relatively unsurprising. Given the potential of fintech within certain business operations for financial institutions and even certain corporations, there is plenty of reason for them to retain exposure.

# UK steady as she goes

### Fintech VC, PE and M&A activity in the United Kingdom

2013 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Boasting as the world's financial capital, the UK's fintech scene enjoys a plethora of advantages. With deal activity chugging along at a steady level over the past four quarters, it is also clear that so far any Brexit-related uncertainty has not negatively impacted UK fintech transactional flow.

"We didn't see much of an impact from Brexit in Q1'17 —which is good, but somewhat of a surprise, given fintech could be one of the most affected sectors. It will be interesting to see if deal activity changes now that Article 50 has been triggered and the negotiation process begins."

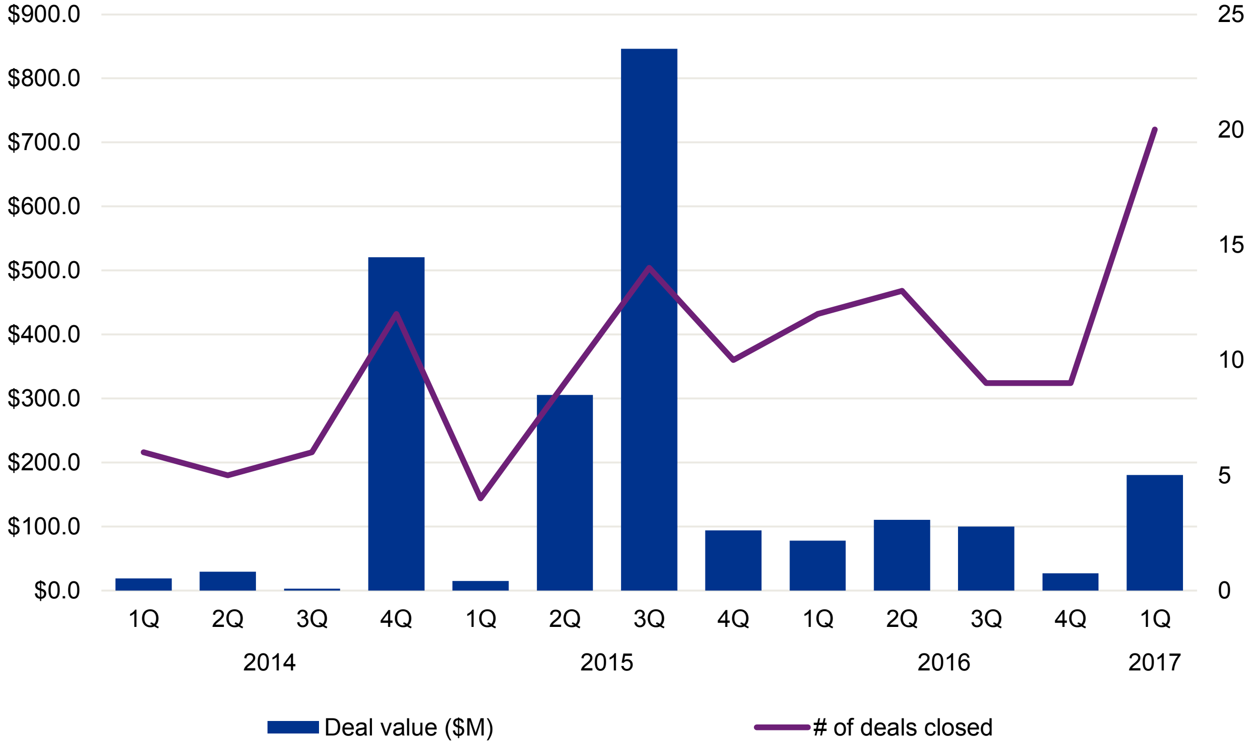
**Patrick Imbach**
Head of KPMG Tech Growth,
**KPMG in the UK**

KPMG

# German activity sees surge in Q1

## Fintech VC, PE and M&A activity in Germany

2014 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Bolstered by considerable VC activity in terms of deal volume, Germany saw its highest tally of completed deals in years. Consequently, value also experienced an uptick, although dwarfed by a few mega-deals in 2015.

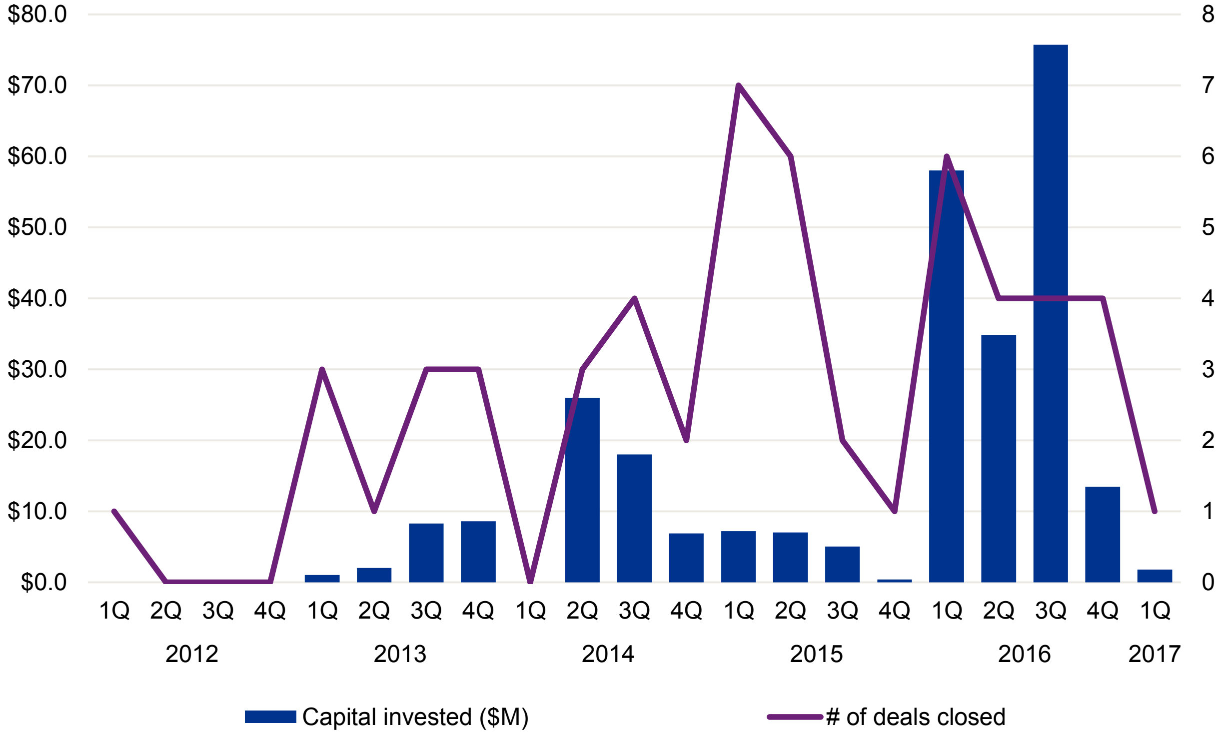
"We have twenty-seven countries, so there is a lot of local innovation. This is an advantage for Europe as its diversity is driving new business models and opportunities. Even small countries like Poland, the Czech Republic and Slovakia are growing fintech companies. Success is happening everywhere. It's not limited to London or Berlin."

**Sven Korschinowski**
Partner, Financial Services,
**KPMG in Germany**

# Slow quarter for Israel

**Fintech venture investment in Israel**

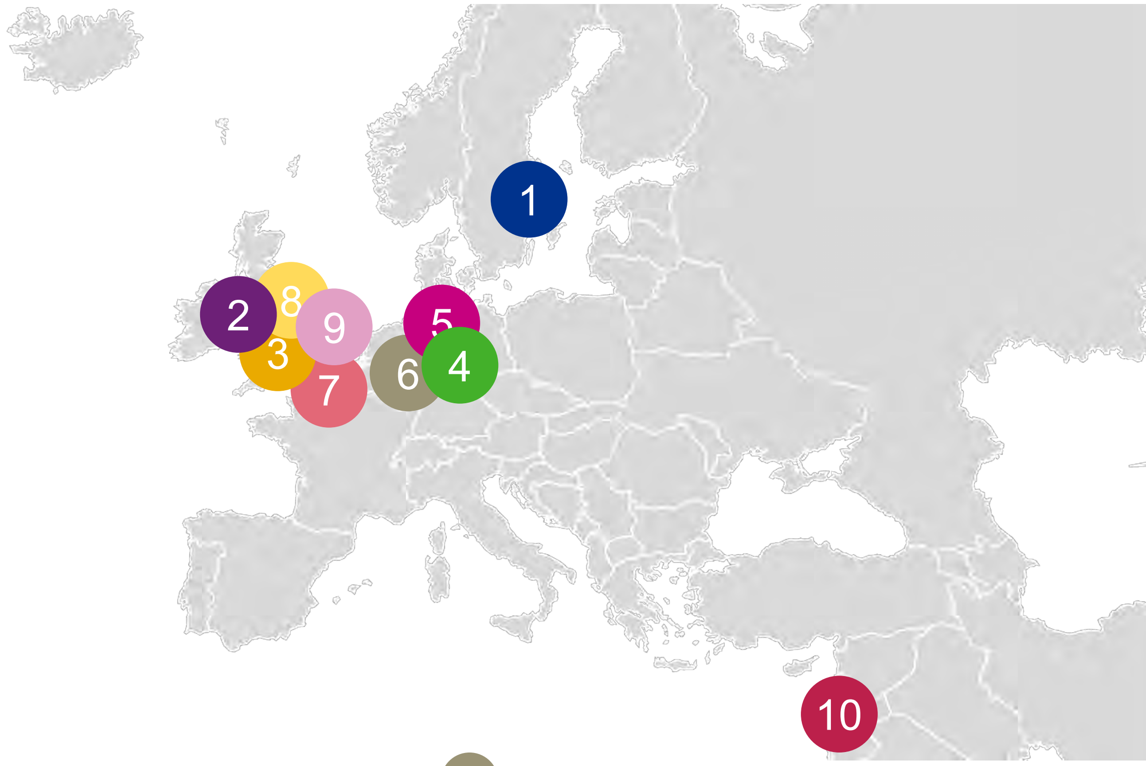
2012 — Q1’17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

The fintech downturn in Israel may be surprising at first, given a steady full year of amassing significant sums in 2016, however the quarter’s results are consistent with the pre-2016 era of fintech investment in the country.

# Top 10 European fintech deals in Q1'17




1 **iZettle** — $175.2M, Stockholm
Payments/transactions
*Series D*

2 **Atom Bank** — $103.6M, Durham
Institutional/B2B
*PE growth*

3 **Funding Circle** — $101.1M, London
Lending
*Series F*

4 **BillPay** — $64.7M, Berlin
Payments/transactions
*M&A*

5 **Raisin** — $31.9M, Berlin
Personal finance
*Series C*

6 **SolarisBank** — $28M, Berlin
Institutional/B2B
*Series A*

7 **Monzo** — $27.5M, London
Personal finance
*Series C*

8 **CurrencyCloud** — $25.0M, London
Payments/transactions
*Series D*

9 **CompareEuropeGroup** — $21.2M, London
Personal finance
*Series A*

10 **VATBox** — $20M, Herzliya
Institutional/B2B
*PE growth*

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

KPMG

***In Q1'17, investment in fintech companies in Asia hit***

# $492M

***across***

**33 deals**

# Fintech investment in Asia drops dramatically

Fintech investment in Asia declined significantly in Q1'17, primarily due to a lack of mega-deals which have been critical to peak quarters in the past. Despite the drop, interest in fintech across the region grew, with many countries attracting attention. Global fintech players also showed strong interest in Asia during Q1'17, with US-based SoFi planning to leverage its most recent funding round to drive expansion into Australia and Asia.

**Fintech activity increasing outside China**

China and India have attracted the majority of fintech funding historically, although Hong Kong and Singapore have also developed strong fintech ecosystems. Q1'17, however, showcased the breadth of fintech activity happening across Asia, as China and India only accounted for four of the top ten deals this quarter. Japan, often considered a fintech laggard, picked up steam this quarter with three early-stage deals among the top ten, while deals in Korea, Singapore and Australia rounded out the list. Prospa's AUD$25 million raise was one of the largest ever VC investments in an Australian fintech.

**Fintech investment in China drops**

Fintech investment in China declined in Q1'17 as investors appear to have re-evaluated their portfolios. The release of new government regulations for internet financing and P2P services may also have had an impact, as both investors and fintech companies need time to assess the ramifications of these changes. Despite the drop in deal value, fintech interest continued to be strong in China, particularly around machine learning, AI, and IoT. In addition to further growth in these areas, the application of big data is also expected to increase.

**Korea surges onto the radar of fintech investors**

Fintech interest in South Korea grew significantly in Q1'17, with payments company Viva Republica raising $48 million. The announcement of China-based Ant Financial's $200 million investment in Kakao Pay — a subsidiary of Korea's leading social media app company — also drew attention in Q1'17, although the deal did not close during the quarter. Fintech interest may be strong in South Korea. However, stringent regulations remain a barrier to fintech success. In Q1'17, South Korea's financial regulator announced temporary changes to regulations to ease barriers. The South Korea government has also supported the development of fintech in the country, through the development of accelerators in partnership with major banks. Looking ahead, fintech activity is only expected to grow. Already in Q1'17, K Bank — the country's first online bank — opened, with a second slated to open in Q2.

**Payments and lending remain priorities in India**

Fintech interest grew in India during Q1'17, with Paytm attracting Asia's largest funding round of $200 million. Payments and lending drove investment during the quarter, although interest in AI also increased. On the blockchain front, a number of banks formed consortia with fintechs to develop blockchain proof of concepts. Interest in blockchain seems to have also increased in the insurance space. Over the next quarter, insurtech is likely to come into its own in India and the government is expected to release regulations for fintech, particularly related to peer-to-peer lending, which could lead to additional activity.

**Fintech sector gaining traction in Singapore**

Q1'17 was a slow quarter for fintech investment in Singapore. However, the government and the Monetary Authority of Singapore (MAS) continued to lead activities on the fintech front, with the MAS working to market Singapore as an Asian fintech hub. Over the next few quarters, AI is expected to gain traction in Singapore, particularly on the digital labor front due to the country's small size. Machine learning, compliance, financial inclusion and robo-advisory are also expected to attract more attention.

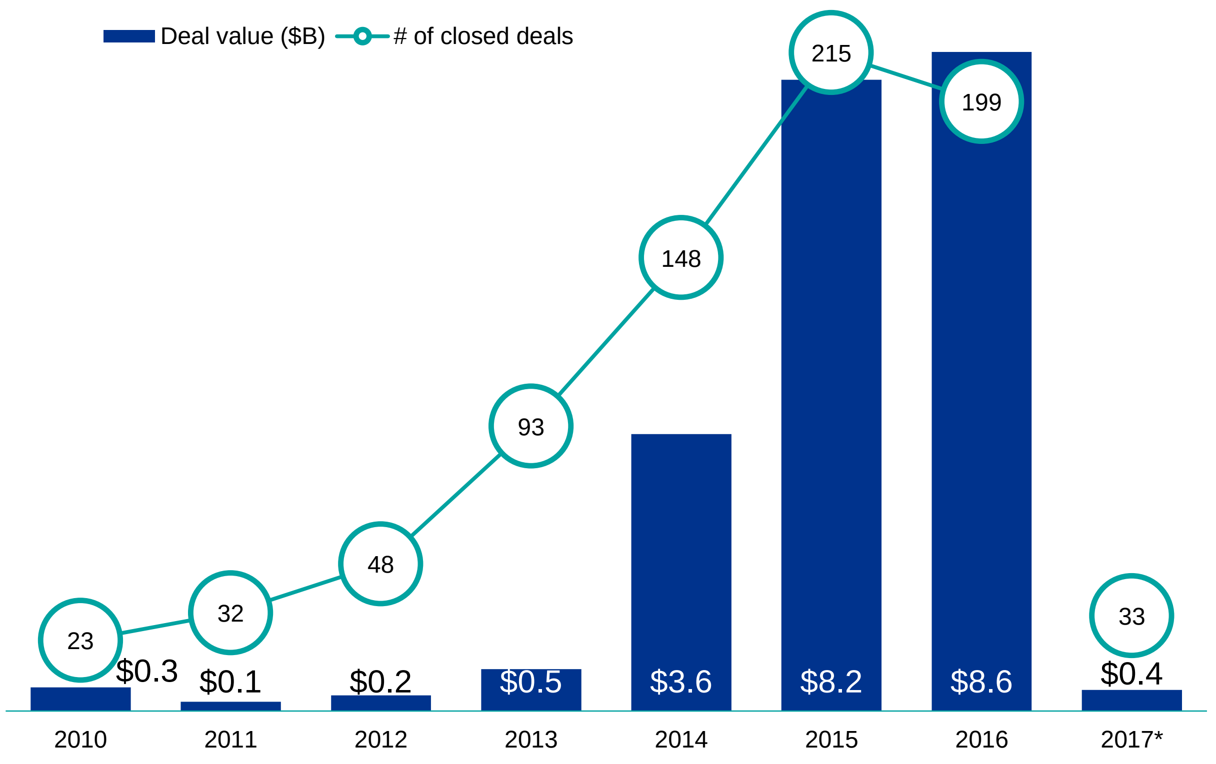
**Trends to watch for in Asia**

Heading into Q2'17, AI and blockchain are expected to remain big bets for fintech investors in Asia, in addition to payments, open data and data analytics. Interest in regtech and insurtech is also projected to increase over the remainder of 2017.

# Mega-deals have yet to make an impact

**Fintech VC, PE and M&A activity in Asia**

2010 — Q1'17



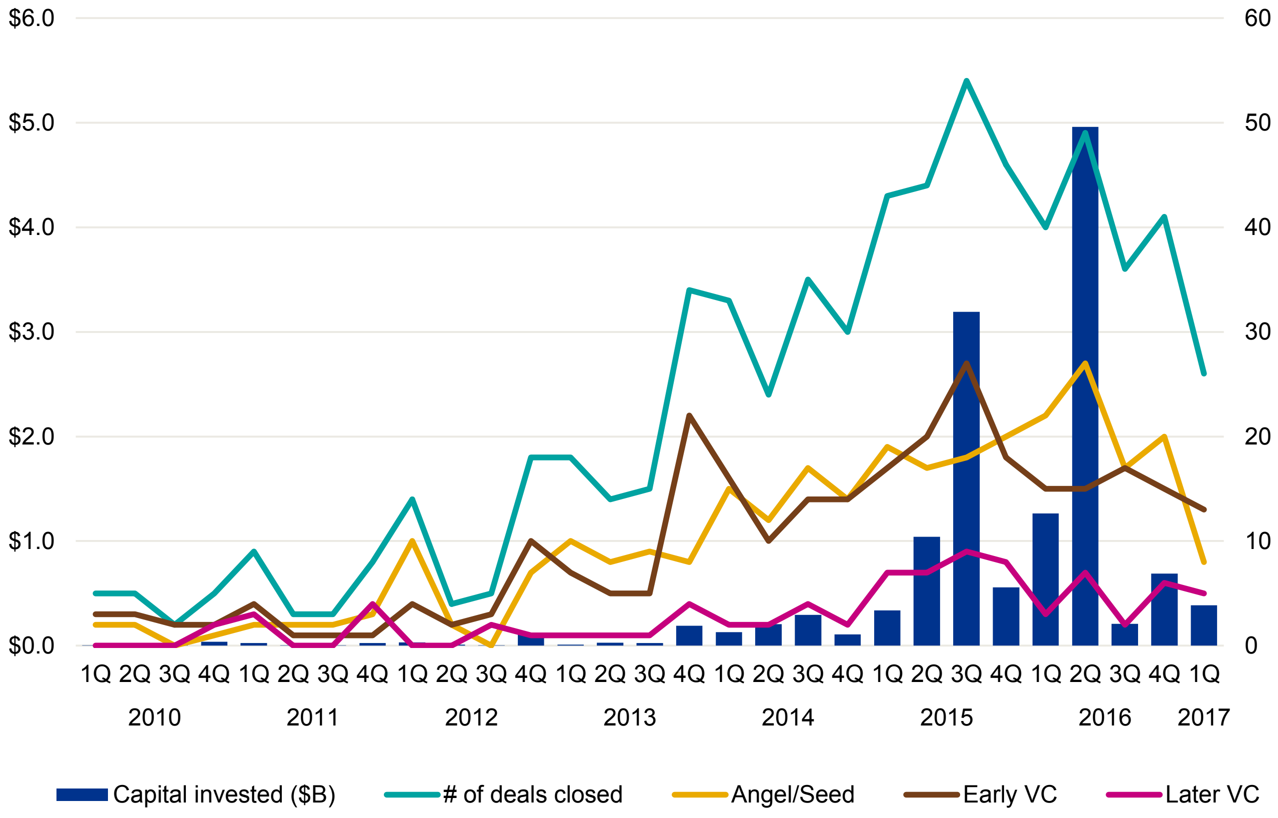

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Outliers such as Ant Financial's massive $4.5 billion financing in 2016 have yet to occur in 2017, and thus the total invested value within the fintech arena looks relatively small. Within any developing ecosystem for venture capital, temporality will skew figures considerably. Moreover, given that massive corporations such as Alibaba or Paytm have already carved out commanding positions from which to branch into nascent niches, there can be disincentives for funding fledgling enterprises that typically, in other geographies, bolster the midsize range of the corporate world.

# Declining angel/seed activity affects overall deal volume

**Fintech venture investment in Asia**

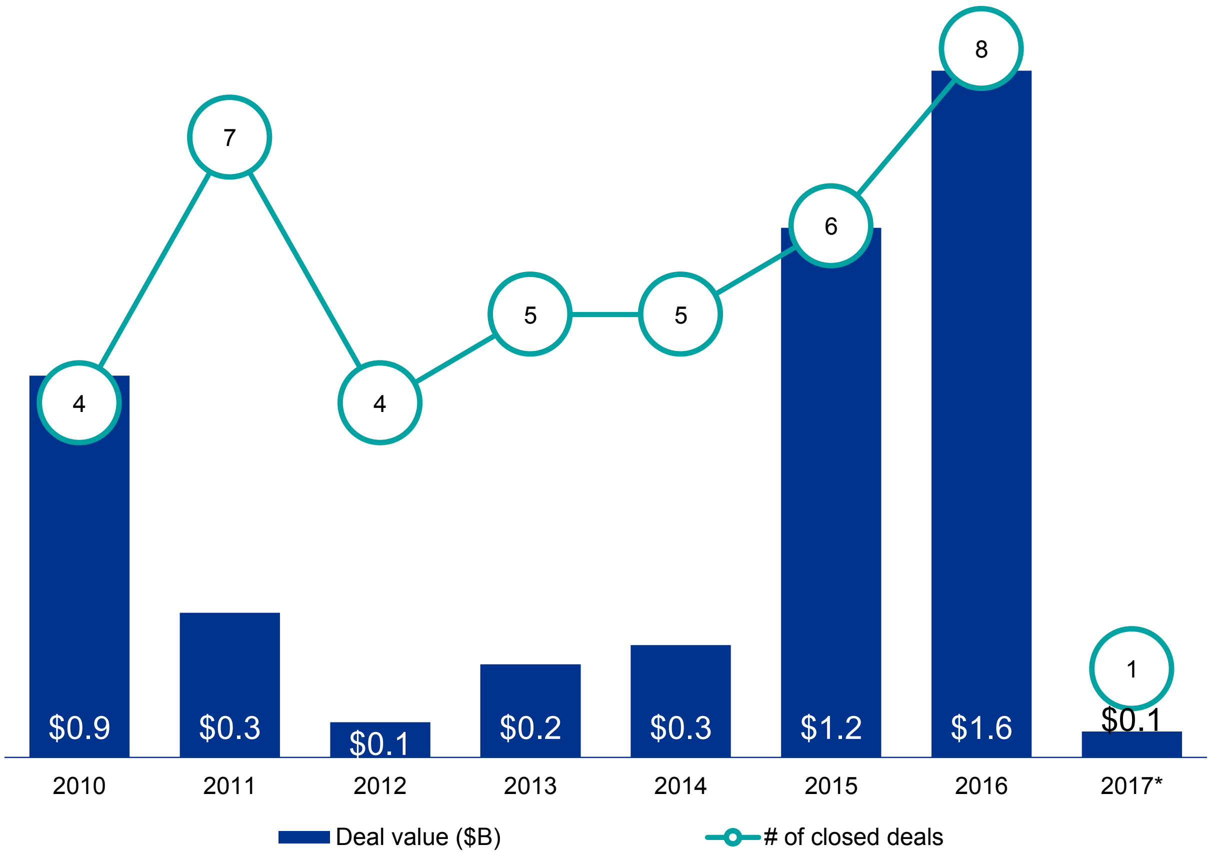
2010 — Q1’17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

# PE activity reliant on a handful of firms

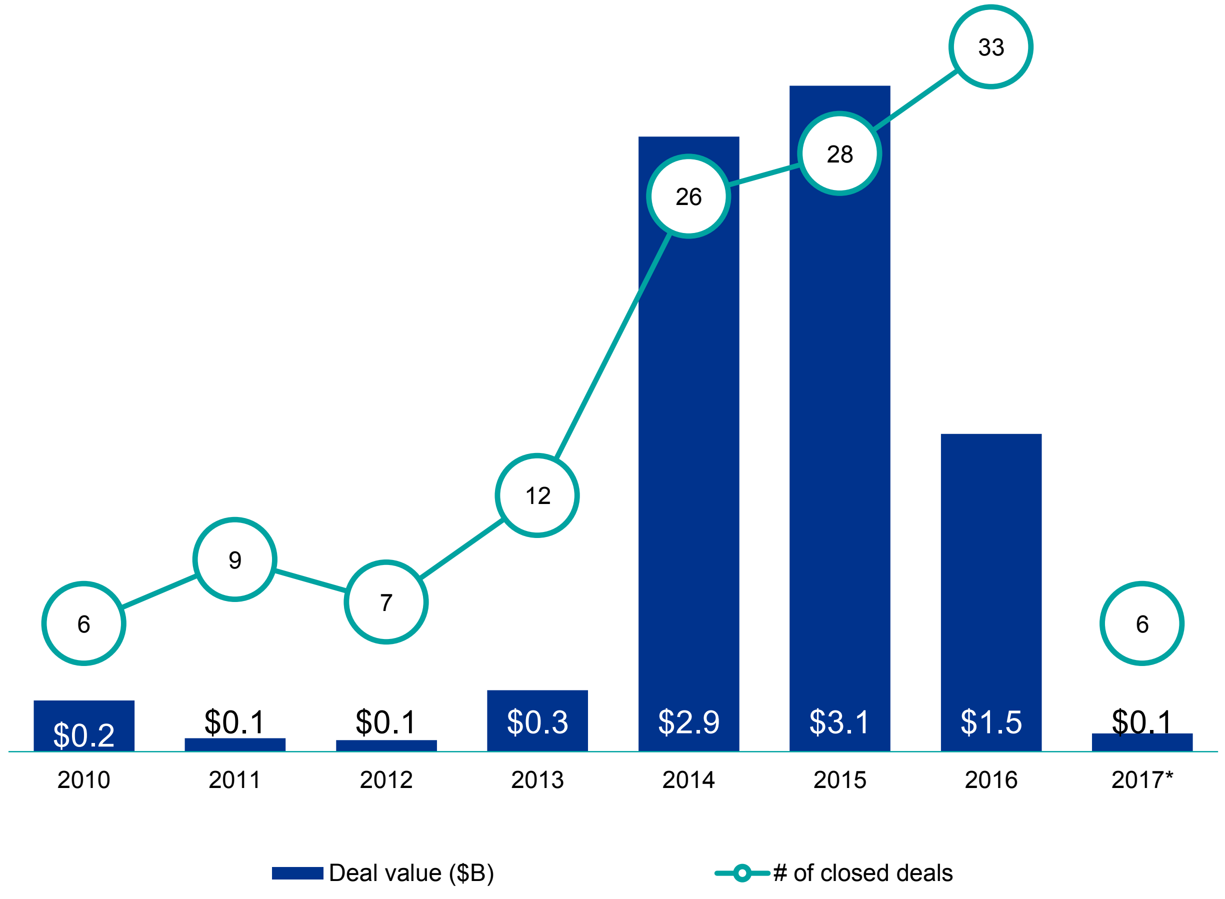
**Fintech PE activity in Asia**
2010 — Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017. Datasets that consist of solely PE transactions have extrapolated deal values.

M&A off to a slow start

**Fintech M&A activity in Asia**
2010 — Q1'17

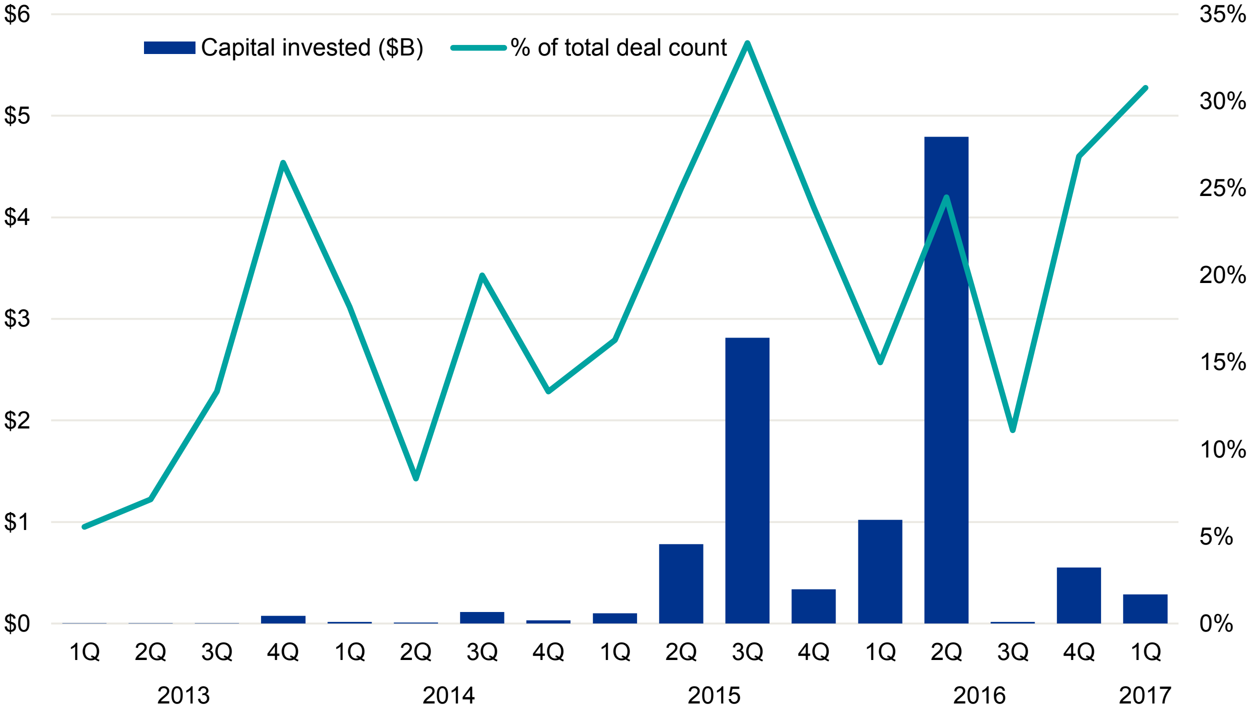



Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook, *as of 3/31/2017) April 27, 2017.

Both consolidation and the push to stay abreast of innovation will likely continue to encourage M&A worldwide. The Asia region should be no exception to that trend as the best strategies for tackling the financial use cases for its emerging middle-class consumer population become more apparent.

# CVCs play an outsized role

**Fintech venture capital activity in Asia with corporate VC participation**
2013 — Q1'17



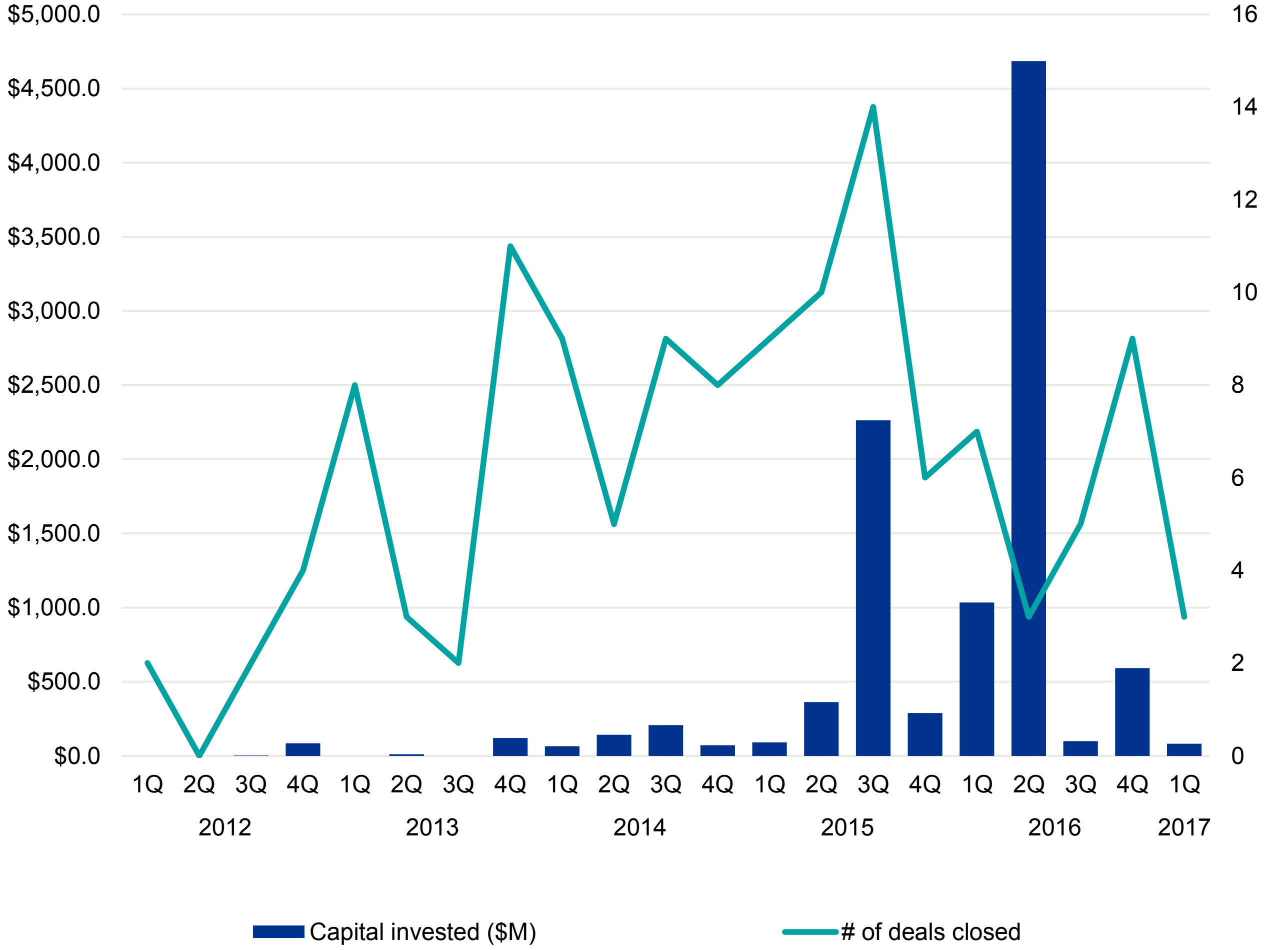

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

It is worthwhile to depict the outsized impact corporate venture arms and corporations in general have when it comes to the Asian fintech venture scene, especially as entities such as China Investment Corporation, Alibaba and the like, not only have the wherewithal but also the investment rationales to corner the best new opportunities within the region early.

# VC activity slow in China

## Fintech venture investment in China

2012 - Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

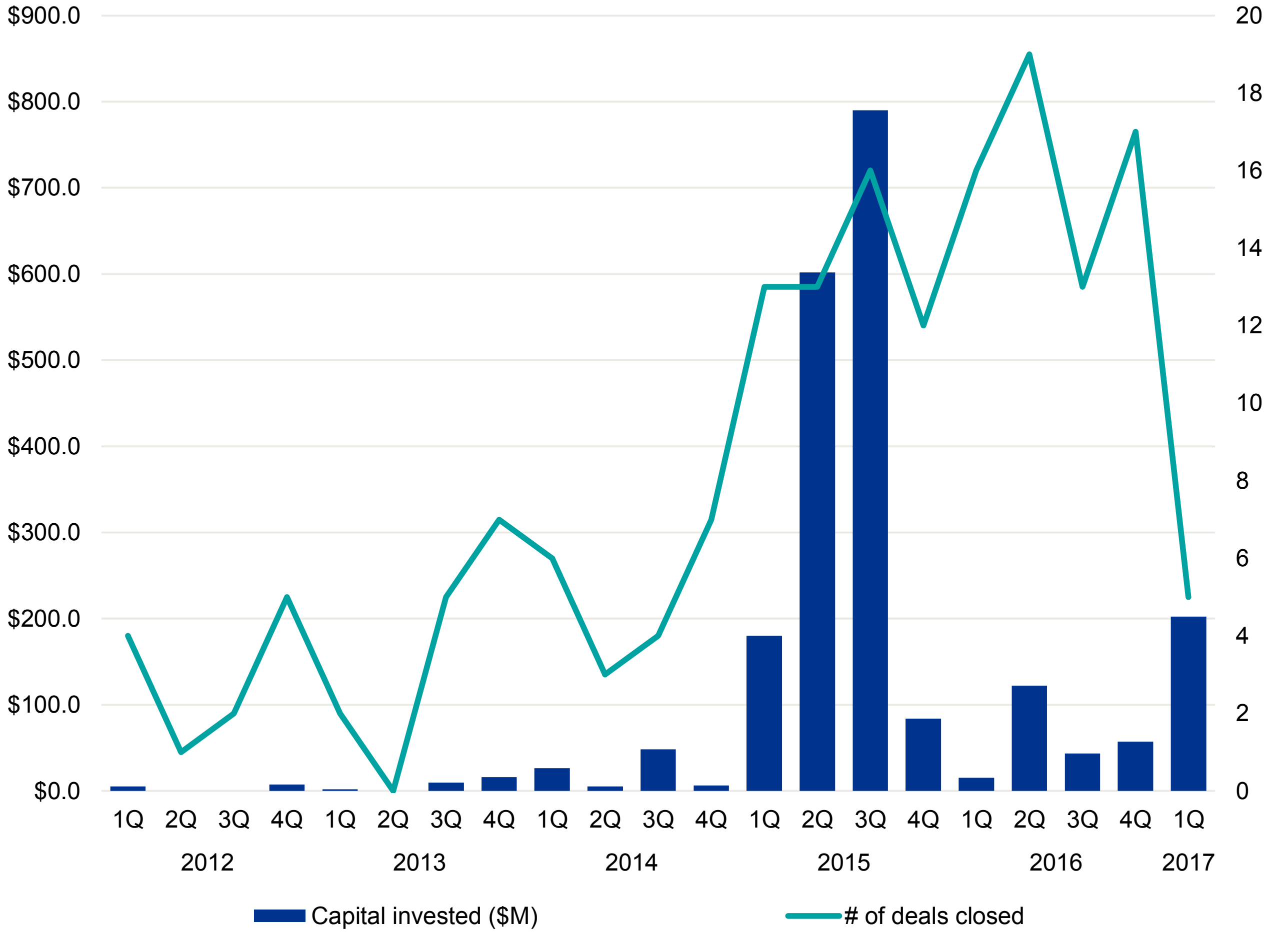
"There were a number of major fintech deals in China over the past few quarters, so it's not surprising that Q1'17 was quiet. New internet financing regulations were also introduced - fintech companies are currently taking stock and time to digest the changes. Once they pivot their business models, investment will likely resume."

**Arthur Wang**
Partner, Head of Banking,
**KPMG China**

## Strong quarter for India

### Fintech venture investment in India

2012 - Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

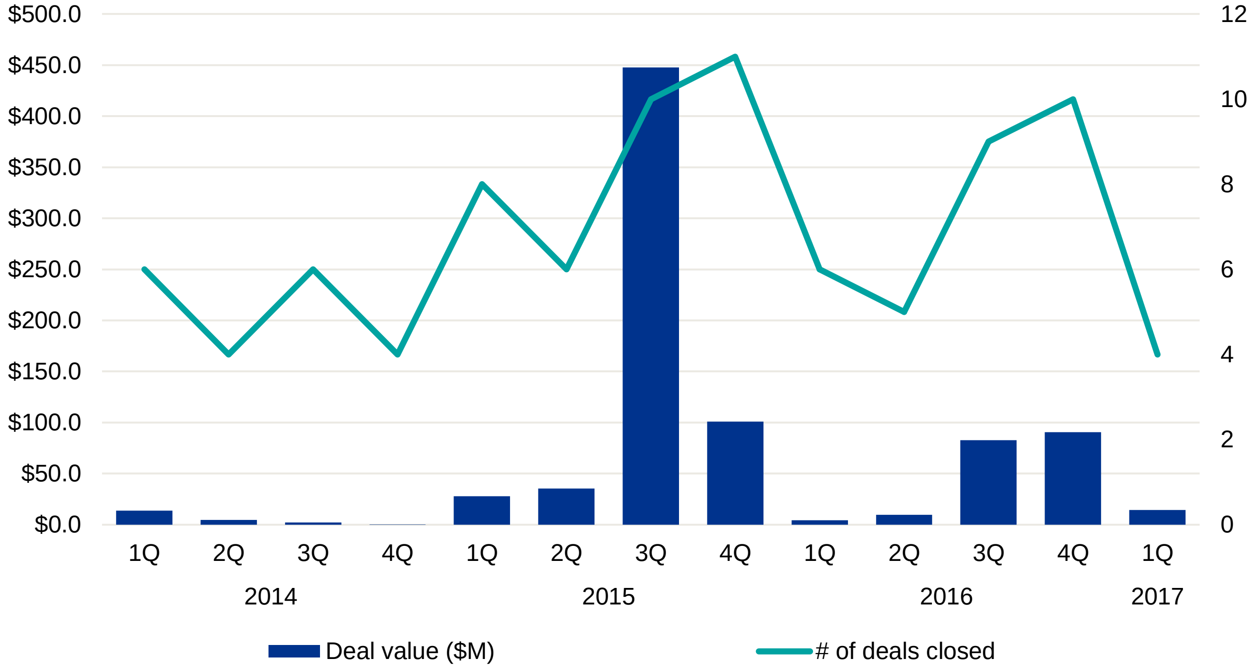
"Payments and lending continue to drive most fintech investment in India, but other areas are quickly gaining momentum. AI and blockchain are receiving a lot of attention, while insurtech is poised to come into its own over the next few quarters."

**Neha Punater**
Head of Fintech,
**KPMG in India**

# A fintech scene marked by outliers

**Fintech VC, PE and M&A activity in Singapore**

2014 - Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Still marked considerably by outliers, the Singaporean fintech scene still enjoys hefty comparative advantages within the region as a whole, ranging from regulatory aspects to geographic positioning to talent access. Accordingly, even if quarterly tallies display a fair amount of volatility, there is plenty of upside and potential for numbers to spike upward once again in the coming year.

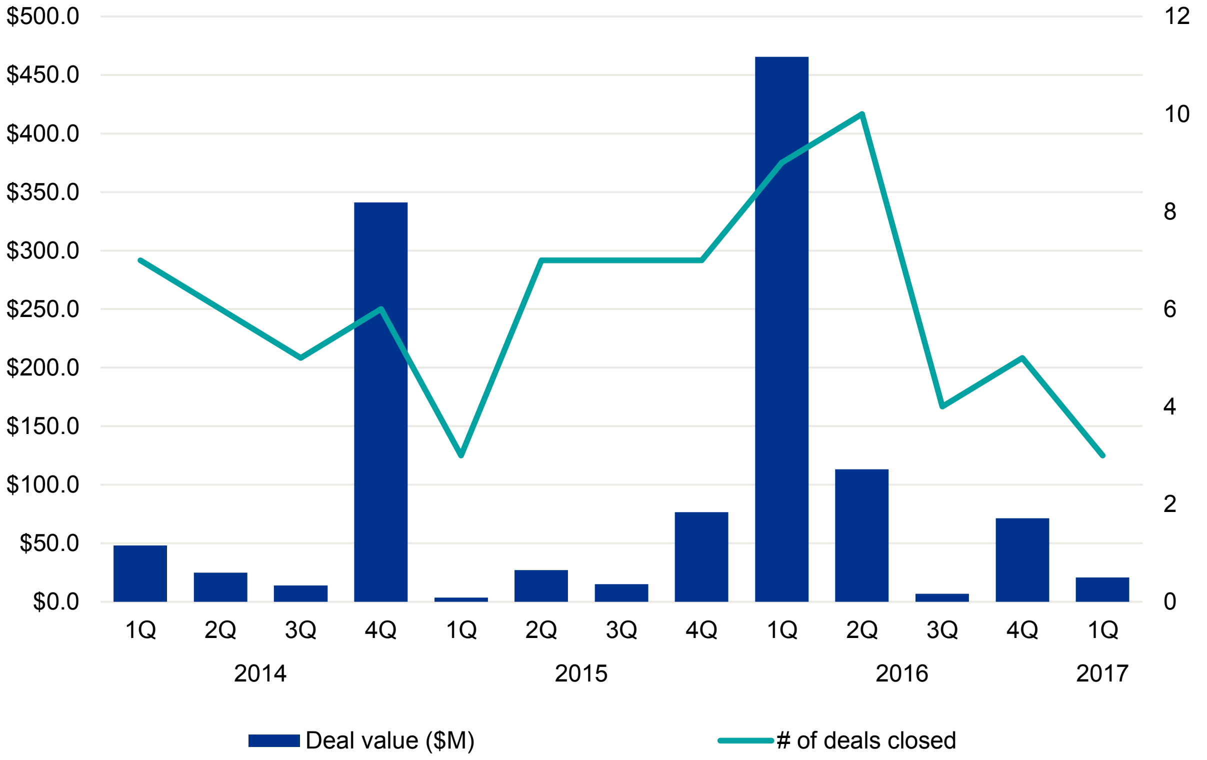
"The MAS is driving Singapore's rapidly expanding fintech market. It's aggressively promoting and marketing Singapore as a fintech hub for the Asia market — working with startups and global corporates to develop and fund fintech activities and with numerous international regulators to bridge regulatory barriers. It's quite evident that the MAS wants Singapore to be a no-brainer location decision."

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

# Australia fintech muted

**Fintech VC, PE and M&A activity in Australia**

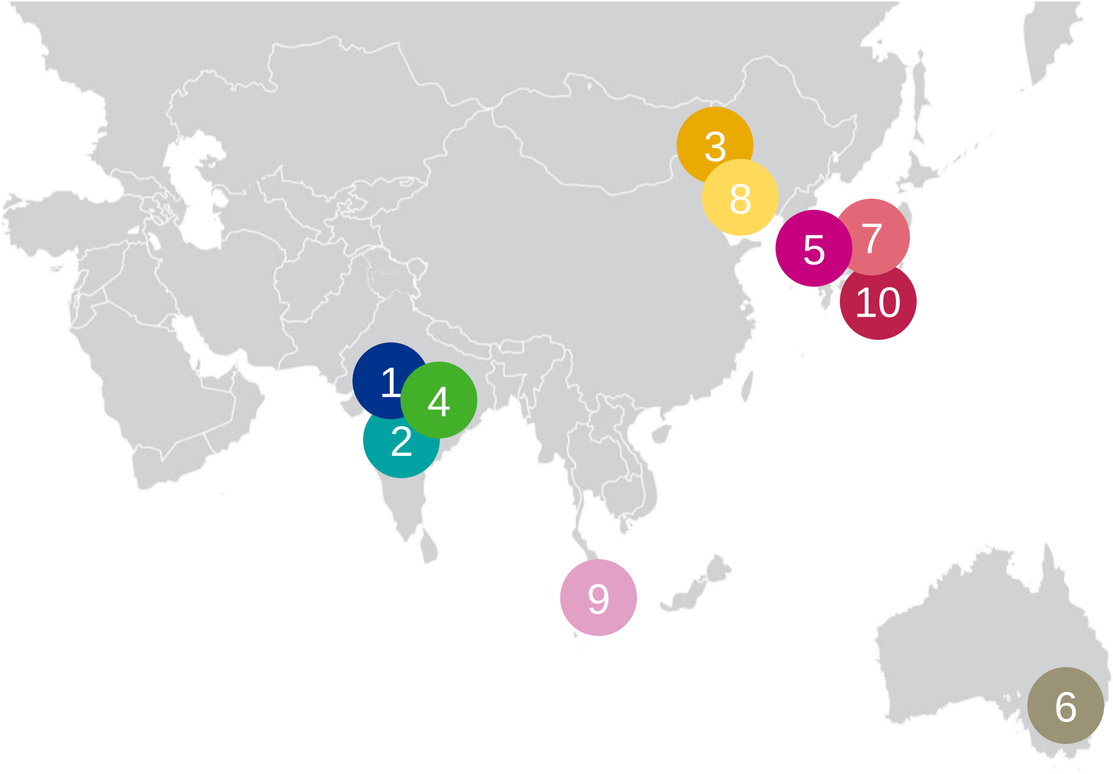
2014 - Q1'17




Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017.

Fintech transactional activity continues its recent volatility in Australia, after a much busier period stretching through much of 2015 and 2016. More discerning investor activity, as some segments such as online lending are seeing greater levels of competition.

# Top 10 fintech deals in Asia in Q1'17




1 **Paytm E-Commerce** — $200M, Mumbai
Payments/transactions
*Early stage VC*

2 **TechProcess Payment Services** — $85.8M, Mumbai
Payments/transactions
*M&A*

3 **Yongqianbao** — $68M, Beijing
Lending
*Series C*

4 **Fino Paytech** — $58.7M, Navi Mumbai
Institutional/B2B
*PE growth*

5 **Viva Republica** — $48M, Seoul
Payments/transactions
*Series C*

6 **Prospa** — $19.2M, Sydney
Lending
*Late stage VC*

7 **Folio** — $18.7M, Tokyo
Wealth/investment management
*Series A*

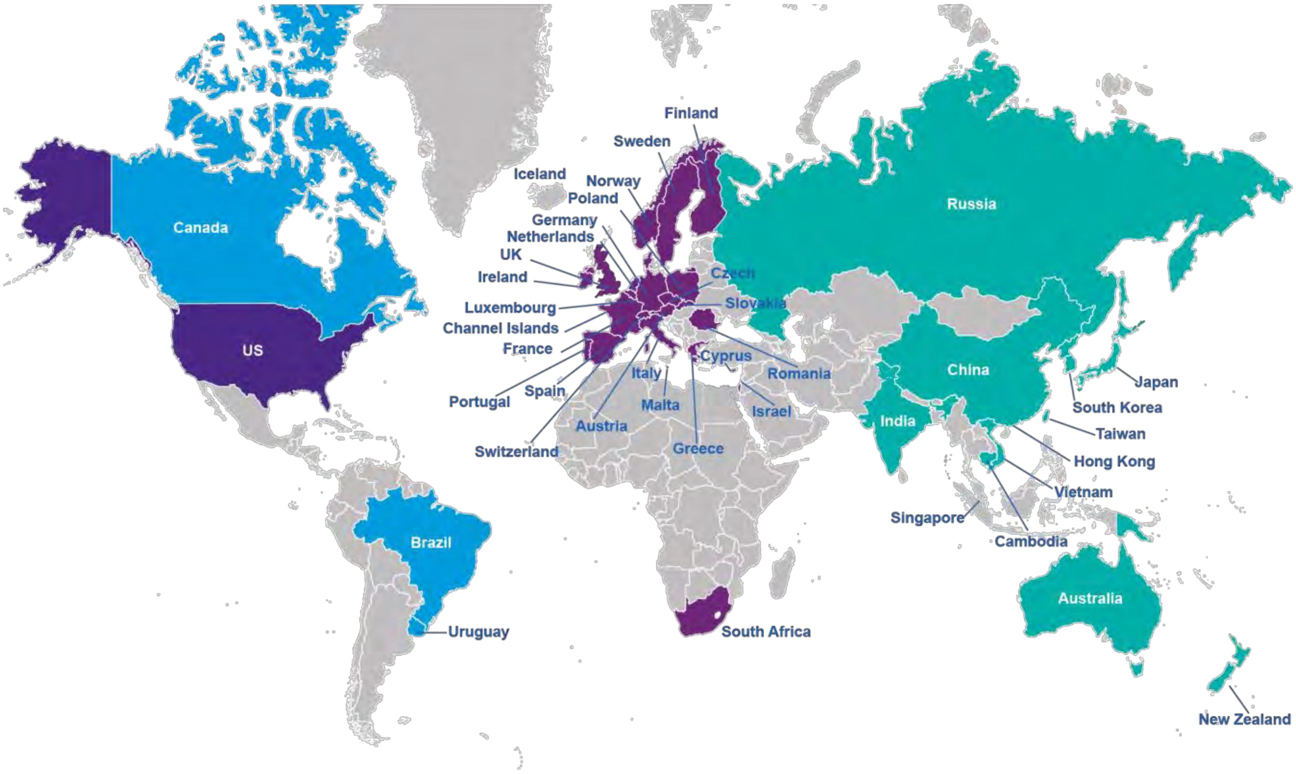
8 **Tiger Brokers** — $14.6M, Beijing
Wealth/investment management
*Series B*

9 **Qtum** — $12.0M, Singapore
Payments/transactions
*Angel*

10 **Moneytree** — $8.9M, Tokyo
Wealth/investment management
*Series B*

Source: Pulse of Fintech Q1'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) April 27, 2017

# KPMG Enterprise Innovative Startup Network. From seed to speed, we're here throughout your journey




**Contact us:**


**Brian Hughes**

Co-Leader, KPMG Enterprise
Innovative Startups Network
**E:** bfhughes@kpmg.com

**Arik Speier**

Co-Leader, KPMG Enterprise
Innovative Startups Network
**E:** aspeier@kpmg.com

# KPMG Fintech global network


## Contact us:


**Warren Mead**

Global Co-Leader of Fintech,
KPMG International
**E:** Warren.Mead@kpmg.co.uk

**Ian Pollari**

Global Co-Leader of Fintech,
KPMG International
**E:** ipollari@kpmg.com.au

# About KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast growing company, or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

The KPMG Enterprise global network for innovative startups has extensive knowledge and experience working with the startup ecosystem. Whether you are looking to establish your operations, raise capital, expand abroad, or simply comply with regulatory requirements — we can help. From seed to speed, we're here throughout your journey.

# 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 is passionate about this transformation, working directly with emerging fintechs through 26 global fintech hubs. KPMG also brings its 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.

# Acknowledgements

**We acknowledge the contribution of the following individuals who assisted in the development of this publication:**

Dennis Fortnum, Global Chairman, KPMG Enterprise, KPMG International

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

Arik Speier, Co-Leader, KPMG Enterprise Innovative Startups Network, and Head of Technology, KPMG in Israel

Brian Hughes, Co-Leader, KPMG Enterprise Innovative Startups Network and National Co-Lead Partner, KPMG Venture Capital Practice, KPMG in the US

Ann Armstrong, US National Fintech Co-Leader, KPMG in the US

Anna Scally, Head of Technology and Media and FinTech Leader, KPMG in Ireland

Anne Joyce, Senior Marketing Manager, Banking Capital Markets and Fintech, KPMG International

Anthony Rjeily, Principal, Financial Services Digital and US National Fintech Co-Leader, KPMG in the US

Arthur Wang, Partner, Head of Banking and Fintech, KPMG China

Conor Moore, National Co-Lead Partner, KPMG Venture Capital Practice, KPMG in the US

Eamonn Maguire, Global Head of Digital Ledger Services, KPMG International, Managing Director, KPMG in the US

Emily Hamilton, Marketing Manager, KPMG Enterprise, KPMG International

Francisco Lopez, Advisory Leader, Financial Services, KPMG in Mexico

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

John Ivanoski, Global Head of Regtech, KPMG in the US

Kevin Kim Hyun-Woo, Senior Consultant, Digital, Management Consulting Services, KPMG in Korea

Lindsay Hull, Senior Marketing Manager, KPMG Enterprise Global Innovative Startups Network, KPMG in the US

Melany Eli, Head, Marketing and Communications, Global Executive, KPMG Enterprise, KPMG International

Murray Raisbeck, Partner, Insurance, KPMG in the UK

Neha Punater, Head of Fintech, KPMG in India

Oliver Cunningham, Partner, Management Consulting and Financial Services, KPMG in Brazil

Patrick Imbach, Head of KPMG Tech Growth, KPMG in the UK

Rachel Bentley, Manager, KPMG Enterprise, KPMG in the UK

Sven Korschinowski, Partner, Financial Services, KPMG in Germany

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

Tom Roberts, Digital lead for Banking, KPMG in the UK

KPMG

# Methodology

**KPMG has switched to PitchBook as the investment data source provider for the Pulse of Fintech. Due to differing methodologies between data providers, there may be discrepancies between this and prior editions of The Pulse of Fintech Report.**

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.

### *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. All financings are of companies headquartered in the US.

*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.

# 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 headquarters 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% of the company must be acquired in the transaction. Minority stake transactions (less than a 50% 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.

**To connect with a KPMG adviser in your region email enterprise@kpmg.com**

kpmg.com/fintechpulse [website]
@kpmg [Twitter]

KPMG