NEWS RELEASE

Global fintech funding falls to US$52.4bn, but it's not all bad news

KPMG Pulse of Fintech – H1'2023

- Americas sees fintech funding climb from US$28.9 billion in H2'22 to US$36.1 billion in H1'23
- With US$8.2 billion of funding, supply chain and logistics focused fintech funding surpasses previous annual record.
- H1'23's US$1.7 billion in green fintech funding already ahead of 2022 total
- EMEA region sees falls of more than 50% in funding between H2'22 and H1'23

The first six months of 2023 were difficult for the fintech market globally, with both total funding and the number of deals dropping, from US$63.2 billion across 2,885 deals in H2'22 to US$52.4 billion in across 2,153 deals in H1'23. The cloud of uncertainty permeating the market continued to wear on investors, driven by factors including global macroeconomic concerns (high inflation and rising interest rates), geopolitical tensions (the ongoing conflict between Russia and the Ukraine), and tech sector challenges (depressed valuations and a continued lack of exits). The collapse of several US banks early in 2023 likely also kept many investors in *wait and see* mode during H1'23.

But not all the news was negative in H1'23. According to the H1'23 edition of KPMG's *Pulse of Fintech*, a number of sectors attracted robust funding during the first half of 2023. Supply chain and logistics-focused fintechs attracted US$8.2 billion in funding in H1'23—well above the space's 2019 annual record of US$5.5 billion. Green fintech also had robust interest, with US$1.7 billion of funding during H1'23— already slightly ahead of its 2022 results (US$1.5 billion).

At a regional level, the Americas saw fintech funding grow—from US$28.9 billion to US$36.1 billion between H2'22 and H1'23—despite a decline in deals volume—from 1,323 to 1,011 deals—over the same timeframe. In the EMEA region, fintech funding dropped by more than 50%, falling from US$27.3 billion across 963 deals in H2'22 to US$11.2 billion across 702 deals in H1'23. Fintech funding also dropped in the ASPAC region—from US$6.8 billion across 583 deals in H2'22 to US$5.1 billion across 432 deals in H1'23.

> "It wasn't a surprise to see fintech funding decline in the first six months of 2023, given the enormous headwinds pressuring the market at the moment," **said Judd Caplain, Global Head of Financial Services at KPMG.** "But the long-term business case for many subsectors within fintech remains very strong—particularly for sectors like payments, insurtech, and wealthtech. Once market conditions begin to even out, funding will likely rebound--if not to the record level experienced in 2021."

H1'23—Key Highlights

- Global funding in fintech dropped from US$63.2 billion across 2,885 deals in H2'22 to US$52.4 billion across 2,153 deals in H1'23.
- The Americas attracted US$36.1 billion in fintech funding across 1,011 deals in H1'23—of which the US accounted for US$34.9 billion across 809 deals. The EMEA region attracted US$11.1 billion across 702 deals, while the ASPAC region attracted US$5.1 billion across 432 deals.
- Global VC funding declined from US$28.3 billion in H2'22 to US$27.3 billion in H1'23. The Americas attracted US$16 billion in funding during H1'23—of which the US accounted for US$15.1 billion, while EMEA attracted US$6.6 billion in VC funding, and the ASPAC region saw US$4.6 billion.
- Global M&A activity was quite soft in H1'23, with only US$24 billion in deal value, including US$19.3 billion in the Americas (US$19.2 billion in the US), US$4.3 billion in the EMEA region, and US$460 million in the ASPAC region.
- Global PE funding was also very soft with US$1.1 billion in funding in H1'23, including US$768 million in the Americas (US$627 million in the US), US$279.5 million in the EMEA region, and US$60.5 million in the ASPAC region.
- Corporate-participating funding accounted for US$16.7 billion in funding during H1'23, including US$10.8 billion in the Americas (US$10.4 billion in the US), US$3.1 billion in the ASPAC region, and US$2.7 billion in the EMEA region.
- Payments accounted for US$16.2 billion of funding in H1'23, while artificial intelligence and machine learning focused fintech attracted US$8.8 billion, supply chain and logistics focused fintech attracted US$8.2 billion, and insurtech attracted US$4.7 billion.

The US accounts for more than two-thirds of H1'23 fintech funding
The US took the lion's share of fintech funding in H1'23, its US$34.9 billion in funding accounting for more than two-thirds of the US$52.4 seen globally. The US also attracted five of the seven US$1 billion+ fintech deals of H1'23, including the US$8 billion buyout of Coupa by Thomas Bravo, the US$6.9 billion VC raise by Stripe, the US$4 billion acquisition of EVO payments by Global Payments, the US$2.6 billion buyout of Duck Creek Technologies by Vista Equity Partners, and the US$1.8 billion buyout of Moneygram by Madison Dearborn Partners LLC. The EMEA region and ASPAC regions each attracted a single US$1 billion+ deal during H1'23; in EMEA, UK-based Wood Mackenzie was acquired by Veritas Capital for US$3.1 billion, while in ASPAC, China-based Chongqing Ant Consumer Finance held a US$1.5 billion VC funding round.

EMEA region sees falls more than 50 percent in funding between H2'22 and H1'23
Total fintech funding in the EMEA region was just US$11 billion in H1'23—less than half the US$27 billion seen in H2'22. The UK attracted over half of this amount (US$6 billion), including the US$3.1 billion buyout of Wood Mackenzie by Veritas, a US$602 million raise by AI-powered lending company Abound, and a US$250 million raise by e-trading platform eToro. While other countries in the region lagged far behind the UK's results, several countries attracted deals over US$250 million, including France (Ledger—US$493 million), Switzerland (Teylor—US$299 million; Metaco—US$250 million), and Mauritius (Bold Prime—US$250 million).

This report comes at the tail end of H1'2023 where global markets are experiencing significant tailwinds, driven by increased interest rates, persistent high levels of inflation, negative repricing of tech companies in the stock market, global geopolitical tensions, and multiple failures of crypto companies. In line with most global market indicators, the trend in South Africa and the rest of the continent is on a comparable path, albeit at a less pronounced deceleration pace.

"In fact, innovation and investment in the region continue to be driven by the triple need to support greater financial inclusion, ensure efficient peer-to-peer payments within and across borders, and deliver secure remittances," says Auguste Claude-Nguetsop, Partner, Banking Sector Advisory Lead at KPMG.

The discrepancy in the regulatory framework is increasingly serving as an indicator of the growth rate differential between markets, with the least regulated market showing the highest level of innovation, growth, and investments.

"We are also seeing regulators setting up Fintech Units, like the one set up by the SARB in 2017, serving as a sand-box unit where market innovations are stress-tested and alignments are made between the fast pace of the innovation in the sector and the level of sophistication of the regulatory response," continues Claude-Nguetsop.

With regards to blockchain and digital assets, the interest is clearly not slowing down despite the increased scrutiny from regulatory bodies. We are seeing increased efforts by investors and banks to re-assess the use cases and business cases of the technology to ensure the promised financial benefits could be reached at a reasonable cost. Leading local banks are looking to be followers, leaving the first moving advantage to Tier-1 international banks and leveraging consortium-led platforms to reduce their product origination and go-to-market costs. More specifically, we are also observing a growing interest in blockchain-used cases related to ESG services (Carbon credit for instance) or helping to increase customer loyalty and engagement (loyalty program), in addition to the standard interest for tokenised financial assets.

"In terms of volume, four countries still dominate the bulk of Fintech funding into the Continent, namely South Africa, Nigeria, Egypt, and Kenya, representing around 1% of global funding invested," says xxx.

For H12023, the global investments in Fintech fell from $63.2bio in H2'22 to $532.4bio in H1'23, with one deal in Mauritius coming as the largest investment in the region (Bold Prime at $250 mio). The projected Fintech market revenue estimated on the continent at $65bio in 2030, representing more than 13x the current figures are looking challenging given current trends, but remain fully achievable if better policy alignment across countries are prioritised, with robust effort made to ensure common standards are defined, enabling Fintech companies to scale their solutions across borders, alongside significant effort in developing a competitive and deep talent pool through a focused effort in education.

ASPAC sees fintech funding decline to US$5.1 billion in H1'23

Fintech funding in the ASPAC region dropped from US$6.8 billion in H2'22 to US$5.1 billion in H1'23—a far cry from the record-breaking six months experienced in H1'22 when fintech funding reached over US$45 billion. The largest fintech deal in the ASPAC region during H1'23 was US$1.5 billion raise by China-based consumer finance services company Chongqing Ant Consumer Finance. Other deals in the region during the quarter were significantly smaller, including the US$304 million buyout of India-based SME lending company Vistaar Finance by PE firm Warburg Pincus, the US$270 million raise by Singapore-based credit services firm Kredivo Holdings, and a US$200 million raise by India-based digital lending platform Creditbee.

Payments remains top fintech subsector with US$16 billion in funding in H1'23

Payments continued to attract a large share of fintech funding globally during H1'23, accounting for US$16.2 billion in funding, including the three largest deals of the quarter—the US$8 billion buyout of Coupa by Thomas Bravo, the US$6.9 billion VC raise by Stripe, and the US$4 billion acquisition of EVO payments by Global Payments.

Supply chain and logistics and green fintech buck downward trends

In H1’23, a number of growing fintech subsectors bucked downward trends, showing resilience and the ability to retain interest and funding despite current market challenges. In particular, supply chain and logistics-focused fintechs accounted for US$8.2 billion of fintech funding in H1’23—a record annual high with six months left in 2023. Green fintech attracted US$1.7 billion in funding during H1’23—already ahead of the sector’s 2022’s total results. Other sectors that saw strong funding in H1’23 included insurtech (US$4.7 billion) and B2B fintech (US$3.7 billion).

In uncertain future, AI expected to make big gains

With no end to many of the geopolitical and macroeconomic uncertainties in sight, fintech funding in H2’23 is expected to remain relatively soft—although if the market stabilizes, fintech funding could start to see a cautious rebound. One area well-positioned to see a strong uptick in interest from investors in H2’23 is artificial intelligence—and generative AI, in particular—as companies around the world look to leverage AI’s full potential as part of efforts to improve both operational efficiencies and customer value.

> “It is still very early days when it comes to the application of generative AI to use cases in financial services,” **said Anton Ruddenklau, Global Fintech Leader at KPMG**. “But looking forward, it is an area that is attracting enormous interest and funding—particularly in areas like cybersecurity, regtech, and wealthtech. Over the next six months, we’ll start to see an uptick in investors embracing the space as corporates demand ways to leverage generative AI effectively.”

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