



Pulse of Fintech H1'22

September 2022

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Shifting market dynamics

The optimism that permeated the fintech market at the end of 2021 quickly transformed into concerns about a potential recession in H1'22 as uncertainties related to the Russia-Ukraine conflict, ongoing supply chain challenges, and rising inflation and interest rates took their toll on public and private companies alike.

Both total global investment in fintech and the total number of fintech deals fell between H2'21 and H1'22. Fintech investment dropped in both the Americas and EMEA, while the Asia-Pacific region attracted a new record high, primarily as a result of several large M&A transactions, including the \$27.9 billion acquisition of Australia-based Afterpay by Block. The payments space accounted for the largest share of fintech investment during H1'22 (\$43.6 billion), followed by crypto (\$14.2 billion).

Looking back, H1'22 can be defined by one word: unexpected. Consider some of the key trends we've seen across the fintech sector over the past 6 months:

- declining investment across most jurisdictions, particularly between Q1'22 and Q2'22
- shuttering of IPO window in wake of turmoil in public markets and rapid decline in valuations

- ongoing strength of payments sector across numerous jurisdictions
- increasing focus on automation and extreme automation in cybersecurity given the ever-increasing number of issues in need of investigation
- growing diversity of jurisdictions attracting fintech investments, particularly \$100 million+ VC rounds.

Heading into the second half of 2022, market challenges are expected to continue, with investors increasingly focusing on top-line revenue growth, profitability, and cash flow. M&A activity is well-positioned to grow as mature sectors see consolidation and investors look for attractive deals amidst the downward pressure on valuations and as some startups contemplate alternatives to downrounds.

Whether you're the CEO of a large financial institution or the founder of an emerging fintech, understanding how market dynamics have shifted could be critical to your competitiveness and sustainability — while finding ways to become more efficient could help minimize cash burn. As you read this edition of Pulse of Fintech, ask yourself:

What can we do now to make sure we're positioned to face whatever challenges the future might hold?



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



Anton Ruddenklau

Global Leader of Fintech,
Partner and Head of Financial
Services Advisory,
KPMG in Singapore

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

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CEO, boltech



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Global fintech investments in H1 2022 recorded \$107.8B with 2,980 deals

Global investment in fintech falls to \$107.8 billion despite robust VC funding

Fintech deals volume and total global fintech investment drops in H1'22

Global investment in fintech fell from \$111.2 billion across 3,372 deals in H2'22 to \$107.8 billion across 2,980 deals in H1'21, mirroring the decline in investment experienced in the broader technology sector. Total fintech investment and deals volume declined in both the Americas and EMEA regions, while the Asia-Pacific region attracted a new annual high of fintech investment amidst a decline in the number of deals. The new Asia-Pacific record was driven almost entirely by three large M&A transactions: the \$27.9 billion acquisition of Australia-based Afterpay by Block, the \$2.1 billion buyout of Japan-based Yayoi by KKR, and the \$1 billion merger of Australia-based fintechs Superhero and Swiftx.

VC investment in fintech remains robust as Europe sets new record

While VC investment globally declined from \$66.5 billion in H2'21 to \$52.6 billion in H1'22, compared to all periods outside of 2021, the amount was incredibly robust. While the Americas attracted the largest amount of VC funding (\$27.2 billion), EMEA saw a new record high level of funding for a 6-month period (\$16.6 billion), led by the world's two largest fintech rounds in H1'22: a \$1.1 billion raise by Germany-based Trade Republic and a \$1 billion raise by UK-based Checkout.com. Fintech-focused VC investment in the Asia-Pacific region remained quite soft at \$8.7 billion.

Downward pressure on valuations brings IPO activity almost to a halt, could spark downrounds

The turbulence in the public markets globally had a major impact on the valuations of many public tech companies in H1'22, including fintechs. This, combined with other challenging market factors, brought IPO activity almost to a halt — a trend expected to continue through H2'22. With the IPO door closed, H2'22 could see downrounds as companies that had planned to exit in 2022 look to raise capital under less than optimal circumstances.

Investors looking for the next big fintech opportunity

In 2021, investment in fintech was quite extraordinary as investors flocked to make investments in the sector. While investment has dropped back to levels seen in previous years, the space is expected to remain a strong focus for investors in H2'22 and into 2023. Fintech investors, however, are expected to become more discerning with their investments — focusing more on profitability and cash flow when evaluating opportunities. Investors are also expected to pay more attention to areas adjacent to traditional financial services offerings, such as open data and decentralized finance. The B2B space is also expected to be a high priority for investors.

“ The fintech market experienced a massive year globally in 2021, which makes it look like investment has somewhat fallen off a cliff so far in 2022. That really isn't the case. We've simply shifted back to levels seen in 2019 and 2020. Taking out 2021's outlier results, global fintech investment and interest was quite positive in H1'22. While the uncertainty permeating the market is expected to continue into H2'22, the diversity of fintech subsectors, combined with the diversity of jurisdictions attracting fintech investments, could help keep investment in the space relatively solid over the near-term. ”

Anton Ruddenklau
Global Fintech Leader,
Partner and Head of Financial Services
Advisory, KPMG in Singapore

Payments space stays hot in eyes of investors in H1'22, but could taper off

Investors in all key jurisdictions continued to flock to the payments space in H1'22, investing \$43.6 billion in payments-focused companies. Given the increasing macroeconomic challenges, investment in the payments space could taper off a bit heading into H2'22, particularly with respect to early-stage deals. M&A activity is expected to remain strong as a result of increasing consolidation among payments firms and as the number and size of add-in transactions rises.

Blockchain and crypto space takes hit, still sees big deals

While the crypto space experienced significant challenges during the first half of 2022, crypto-focused companies attracted \$14.2 billion during H1'22, including a \$1.1 billion raise by Germany-based Trade Republic in June.

Trends to watch for in H2'22

- Market corrections — including declining valuations, increasing M&A and a growing number of distressed businesses — in light of the predicted recession and the over-enthusiasm and over-investment in key areas over the last 18 months.
- Continued focus on embedded solutions, including payments, finance, and insurance.
- Big tech companies and other corporates prioritizing partnerships, while also looking for opportunities for add-ins at bargain prices compared to recent years.
- Growing focus on B2B solutions aimed at improvement of infrastructure or on the optimization of operational activities like AR/AP.
- Slowdown in crypto interest and investment, particularly retail firms offering coins, tokens and NFTs.
- Increasing focus on underdeveloped fintech markets, including jurisdictions in Africa.

“ Fintech investors still have a significant amount of dry powder available to them in many parts of the world. But given the current market climate, they are becoming more discerning with their investments, focusing more on profitability and on the sectors expected to do well in a new challenging market. The B2B space is expected to remain quite attractive to fintech investors heading into H2'22, in addition to areas like open data. ”

Judd Caplain

Global Head of Financial Services
KPMG International

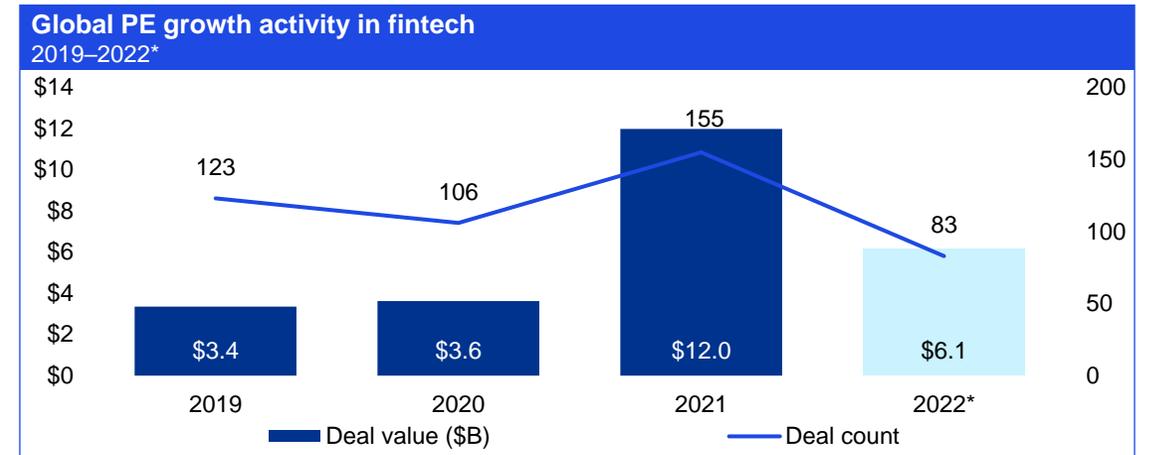
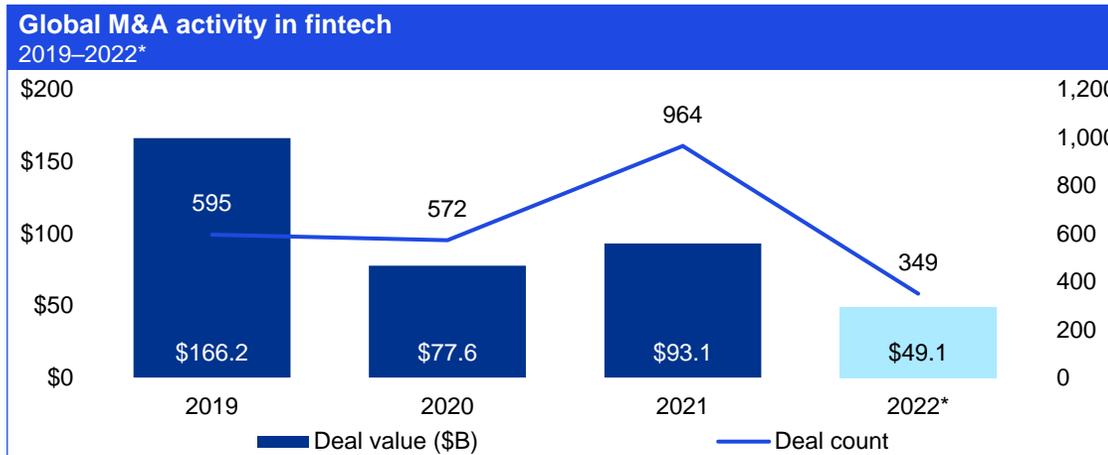
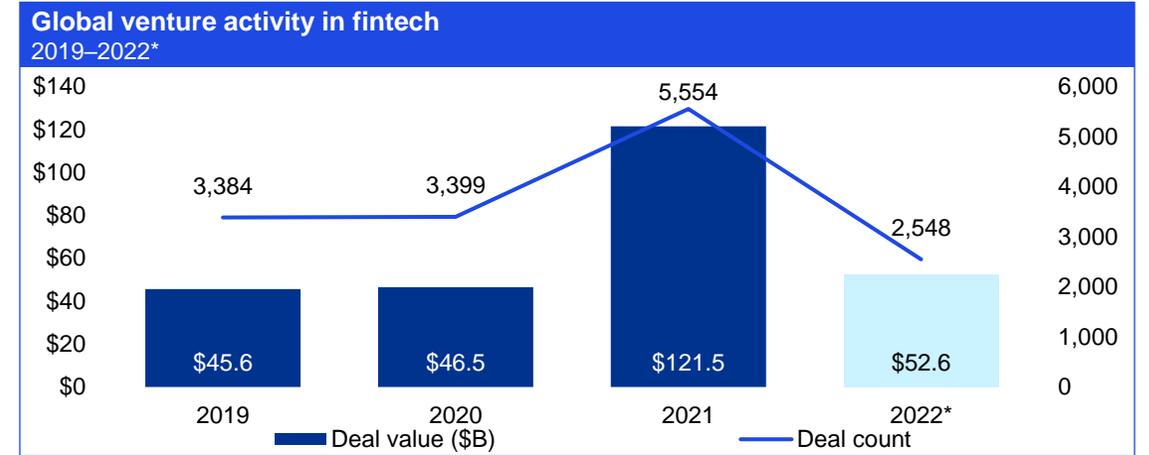
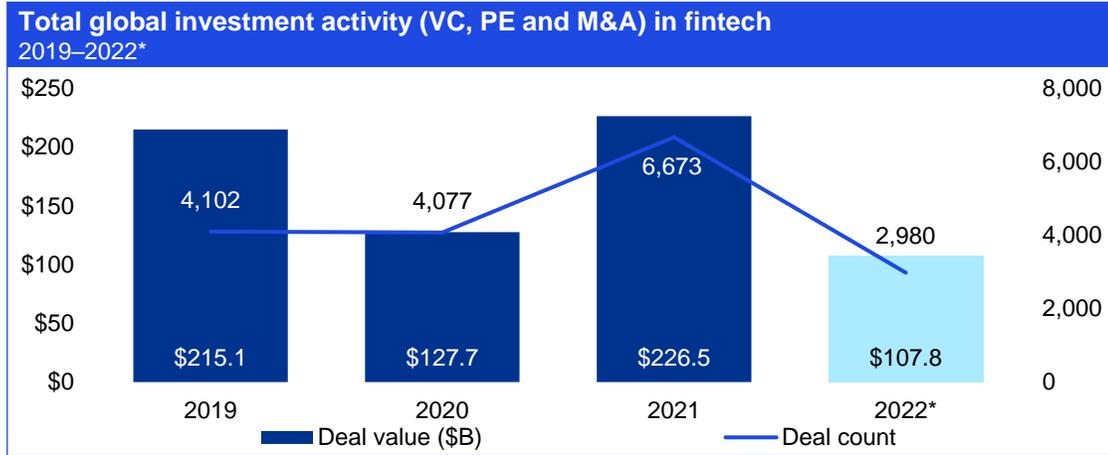
Global insights

Top Fintech trends for H2'22

During the first half of 2022, numerous factors combined to affect the upward trajectory of fintech investment globally, including geopolitical uncertainty, turbulent public markets, ongoing supply chain disruptions and challenges, high levels of inflation, and increasing interest rates. With no end in sight to the levels of uncertainty, fintech investment in H2'22 could be quite subdued, particularly compared to the significant record highs experienced in 2021. Here are our top predictions for fintech in H2'22:

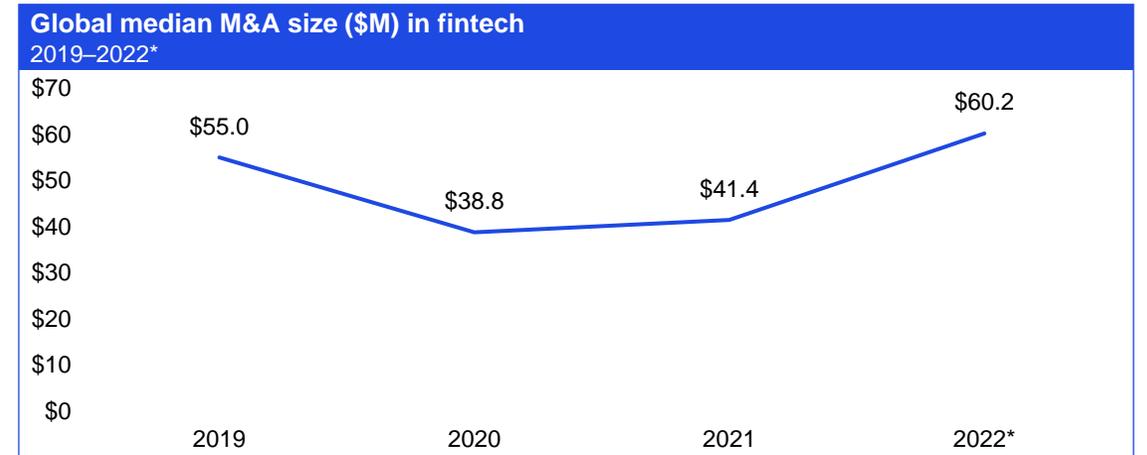
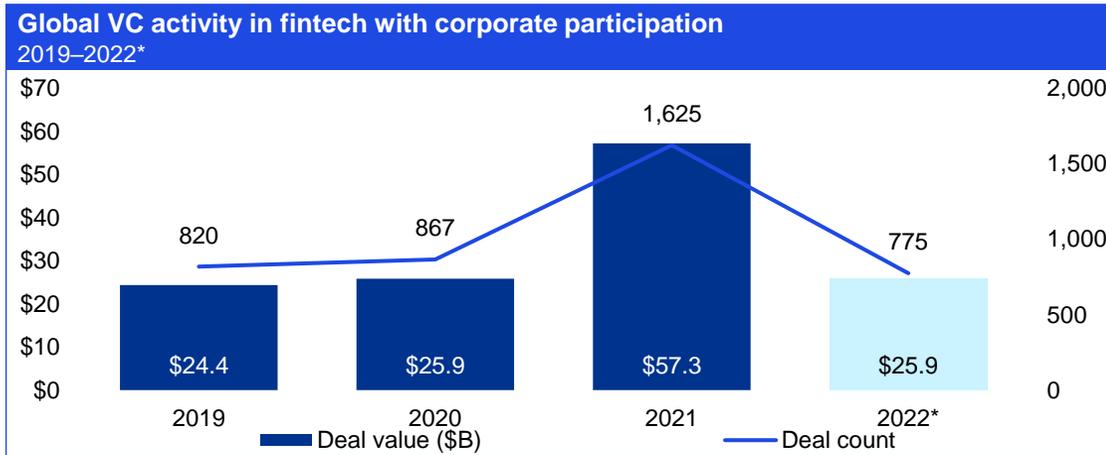
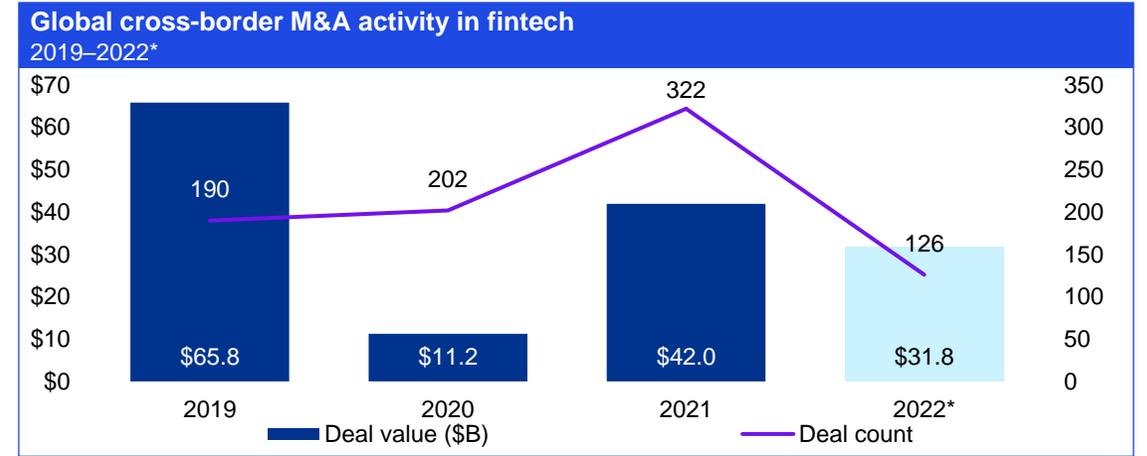
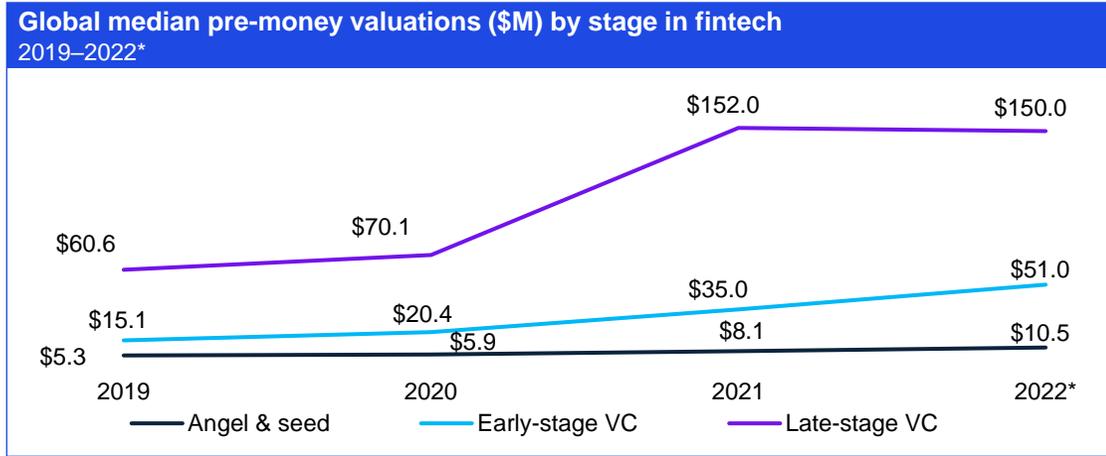
- 1. Valuations continuing to adjust as cost of capital increases:** As interest rates continue to rise, capital will become more expensive. This will have an impact on valuations and will drive investors to enhance their focus on cash flow, top line revenue growth and profitability.
- 2. M&A will increase as corporates and PE firms look for bargains:** Given the downward pressure on valuations, M&A activity will likely increase as investors see the opportunity to make acquisitions at better prices than have been seen in recent years. Startups could also look to sell as an alternative to holding a down round.
- 3. Interest in cybersecurity automation will keep growing:** With cybersecurity concerns only growing on the radar of most companies, there will likely be an increasing focus on cybersecurity automation as a means to improve cybersecurity management while also managing talent shortages and improving operating efficiencies.
- 4. B2B solutions will become more attractive to investors:** As the world teeters on the edge of a recession, fintech investors will likely enhance their focus on B2B companies working to help companies become more efficient or enable them to expand their value propositions.
- 5. Fintechs will continue to focus on data-driven solutions:** Fintech companies will continue to focus on finding unique ways to collect, assess, and utilize data in order to differentiate their offerings — in the eyes of both corporates and consumers.
- 6. Crypto and blockchain investments will increasingly focus on infrastructure:** While investment in cryptocurrencies is expected to slowdown further, there will likely be a continued focus on the use of blockchain in financial market modernization.

Even amid volatility, deal flow continues



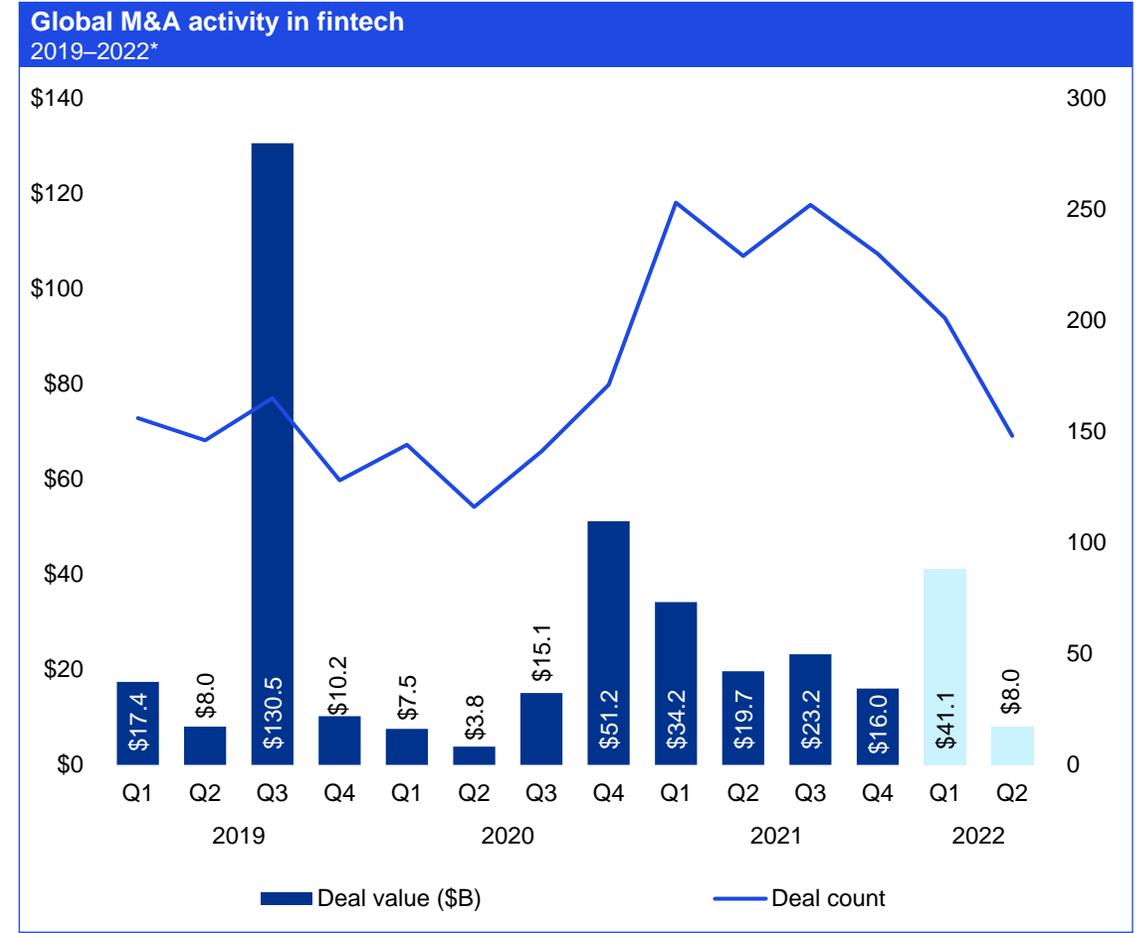
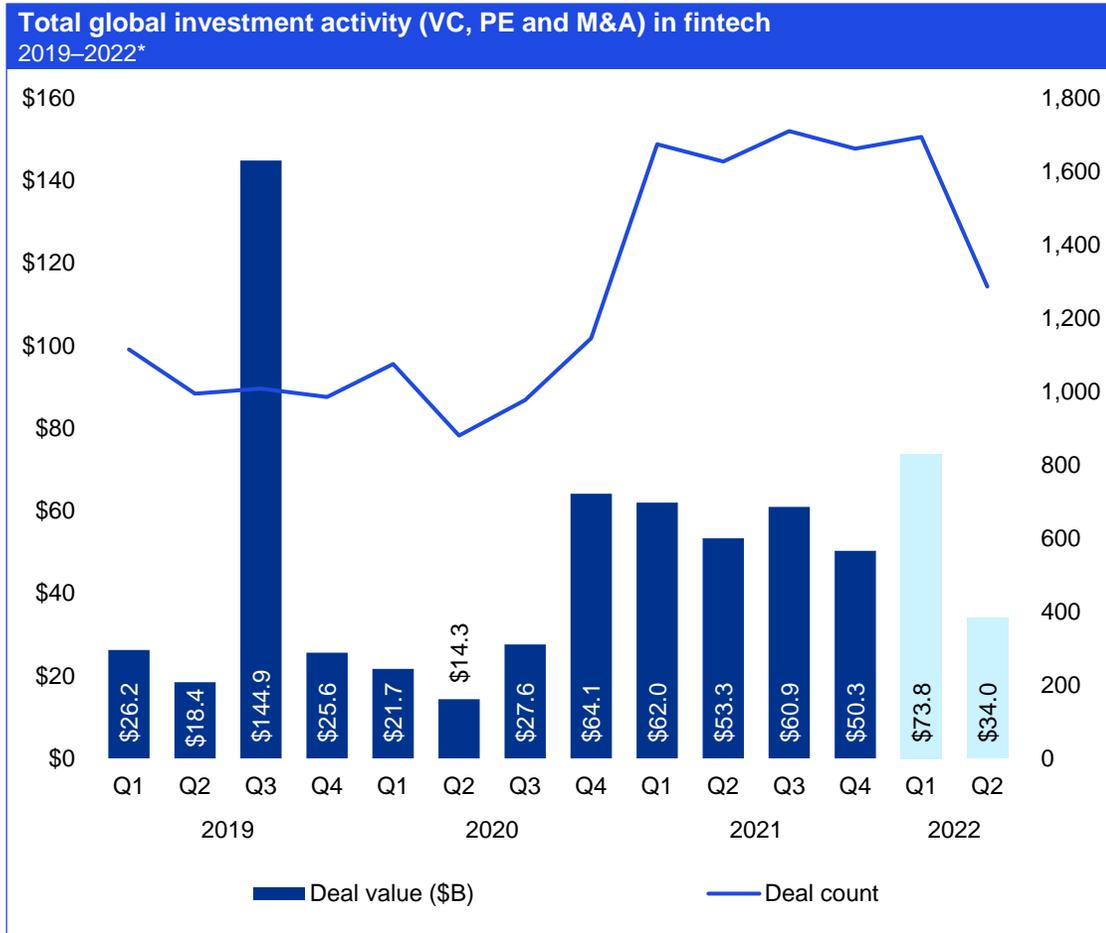
Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Venture valuations remain elevated



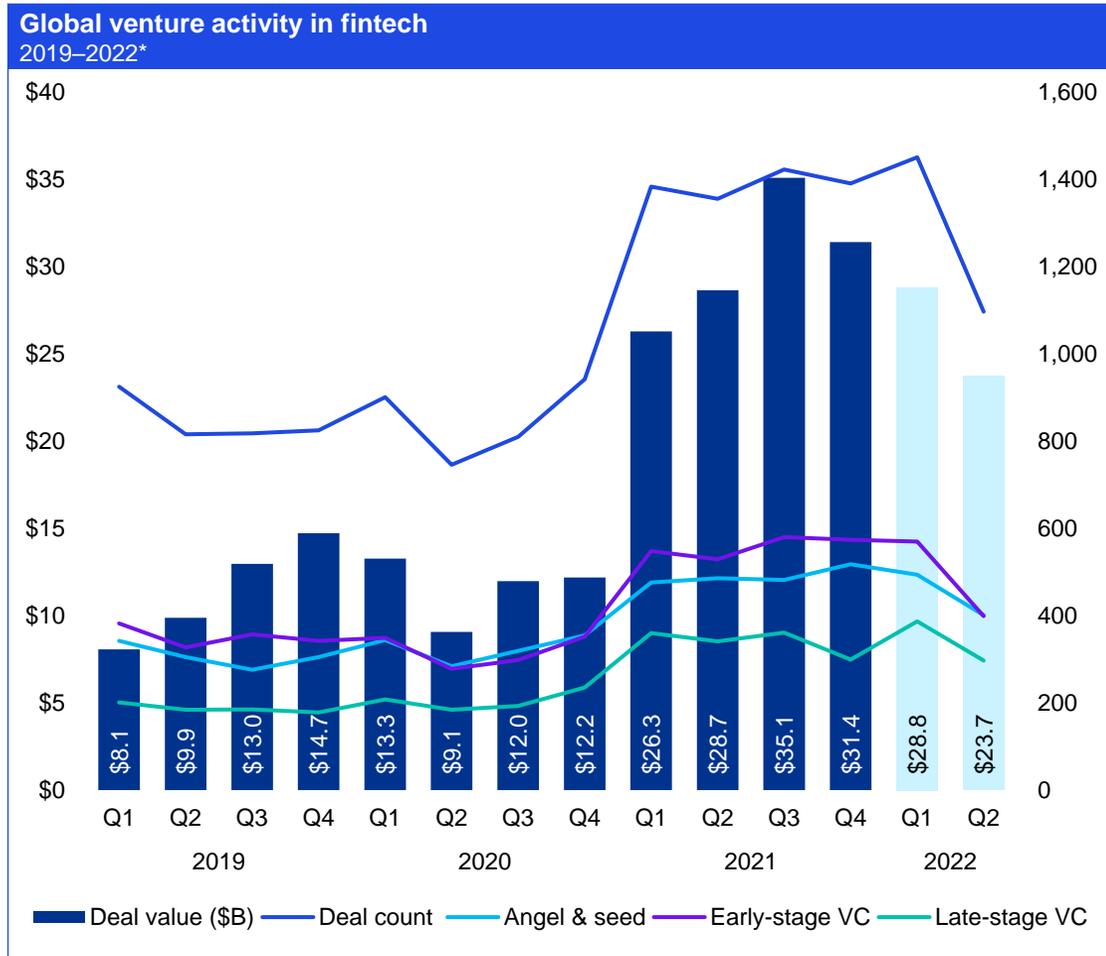
Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

As of yet, it remains to be seen if the dip in Q2 2022 is a portent of trends to come



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Quarterly deal value tallies remain robust, especially relative to historical averages



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Top 10 global fintech deals in H1 2022



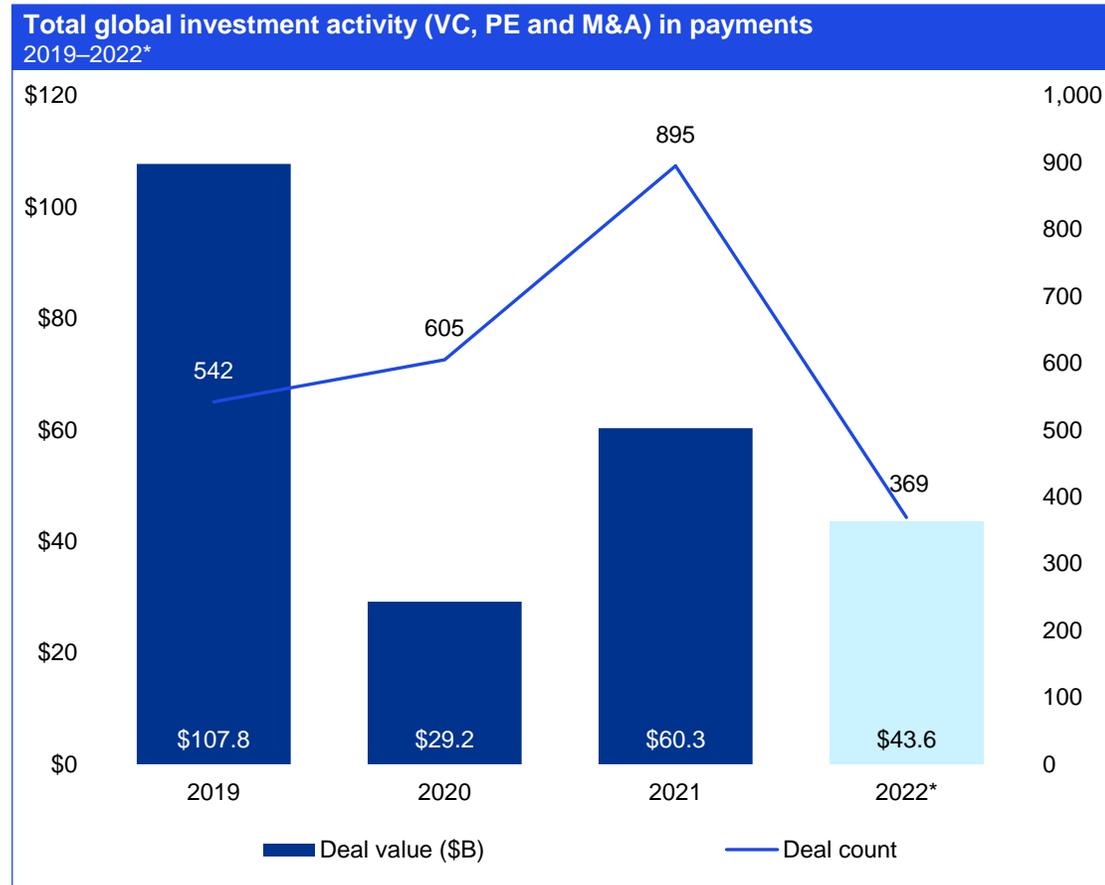
1. **Afterpay** — \$27.9B, Melbourne, Australia — Payments — *M&A*
2. **Sia (Milan)** — \$3.9B, Milan, Italy — Payments — *M&A*
3. **Bottomline Technologies** — \$2.6B, Portsmouth, US — Institutional/B2B — *Public-to-private buyout*
4. **Yayoi** — \$2.1B, Tokyo, Japan — Institutional/B2B — *Corporate divestiture*
5. **Interactive Investor** — \$1.8B, Leeds, UK — Wealth/investment management — *M&A*
6. **FNZ** — \$1.4B, London, UK — Wealth/investment management — *PE growth*
7. **SimpleNexus** — \$1.2B, Lehi, US — Lending — *M&A*
8. **Trade Republic** — \$1.15B, Berlin, Germany — Capital markets — *Series C*
9. **Technisys** — \$1.1B, Miami, US — Institutional/B2B — *M&A*
10. **Superhero** — \$1.06B, Sydney, Australia — Wealth/investment management — *M&A*

Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Fintech segments

- **Payments**
- **Insurtech**
- **Regtech**
- **Cybersecurity**
- **Wealthtech**
- **Blockchain/cryptocurrency**

Payments space continues to attract big investment in H1'22



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Investment in the payments space remained very strong in H1'22, accounting for \$43.6 billion in investment compared to the \$60.3 billion seen during all of 2021. The acquisition of Australia-based Afterpay by Block (formerly Square) for \$27.9 billion accounted for the largest payments deal of the quarter — and the largest fintech deal globally during H1'22 — followed by the \$2.6 billion buyout of Bottomline Technologies by PE firm Thomas Bravo, and a \$1 billion VC raise by UK-based Checkout.com. Key H1'22 highlights from the payments sector include:

US continues to drive payments-focused investment

The US accounted for a strong portion of payments-focused fintech activity in H1'22, both internally and in terms of driving cross-border investments in the sector. The ASPAC region continued to be a major target for investment and deal making, with Singapore-based Coda Payments attracting \$690 million in PE funding during in H1'22, Indonesia-based Xendit raising \$300 million in VC investment, and India-based Slice raising a \$220 million Series B round.

No end in sight for payments-focused M&A activity

The payments space continued to account for high value M&A transactions in H1'22, led by Block's acquisition of Afterpay. The volume of payments-focused M&A is expected to remain high as companies look to gain market share, grow globally and limit competition — although deal value could decline given the deflation in valuations experienced by many fintechs, and by tech companies in general, given the current market environment.

B2B payments solutions still very attractive for investors

The B2B payments space attracted significant attention in H1'22, a trend expected to continue into H2'22 as businesses look for fintechs with technology solutions able to help them digitize and improve the efficiency of their AP/AR activities.

Caution growing around buy-now-pay-later (BNPL) companies

BNPL companies are coming under more scrutiny from regulators as consumers struggle with rising inflation and rising costs. With interest rates also rising, BNPL companies will likely feel significant pressure on their margins due to the increasing cost of borrowing. With the world on the cusp of a recession and an economic slowdown predicted, fintech investors are starting to take a very cautious approach to making investments in the BNPL space as it is becoming a higher risk value proposition.

Challenger banks continue to evolve — but also facing challenges

Challenger banks continued to attract a significant amount of attention during H1'22 in many regions of the world as many continued to evolve and grow their value propositions to include stronger hyper-personalization, data driven predictive analytics and predictive banking services, and adaptive customer banking experiences. Under pressure to grow, however, some challenger banks have come under regulatory scrutiny as a result of compliance issues. In March, the Bank of Italy banned N26 from onboarding new customers due to AML issues.¹

What to watch for in H2'22

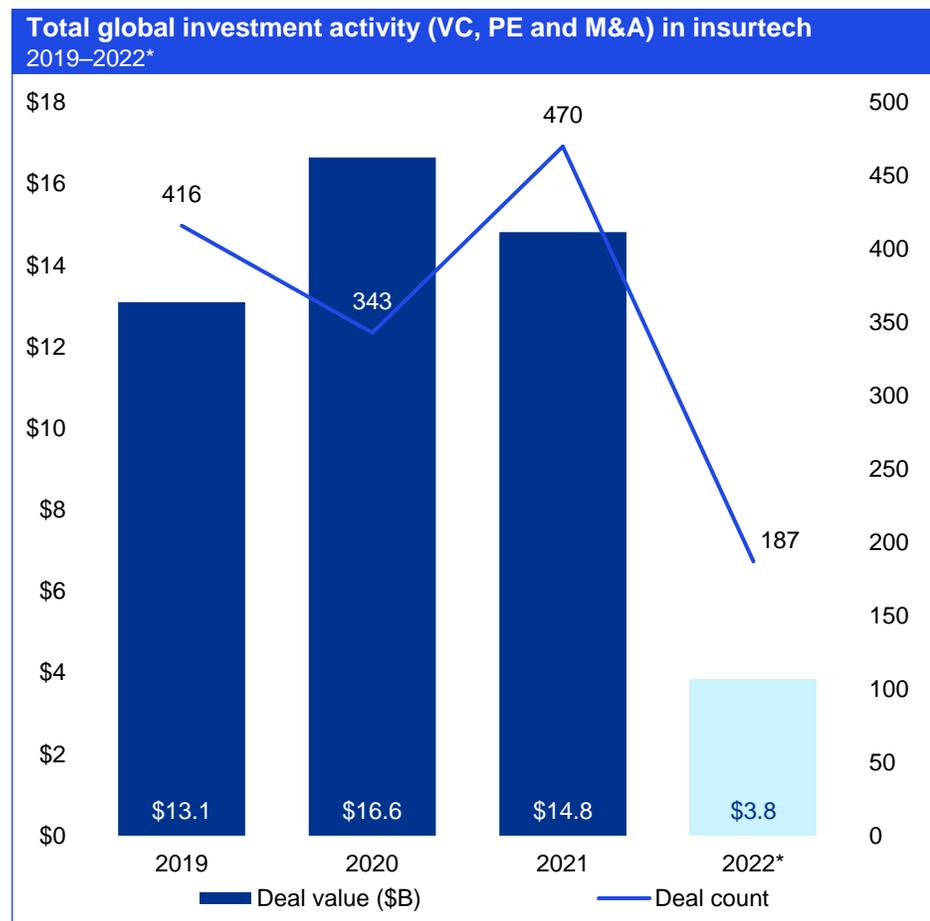
- potential down rounds as some payments companies seek to raise capital at lower valuations
- further consolidation as payments companies look to survive and better distinguish themselves from the competition, and
- continued focus on open banking and embedded finance and on fintechs able to enable a more integrated and frictionless customer experience.

¹ <https://www.finextra.com/newsarticle/39969/bank-of-italy-bans-n26-from-onboarding-new-customers-over-aml-failings>

“ Most challenger banks will continue to expand into new markets and roll out new products and services in 2022, despite increased funding difficulties and some regulatory challenges in different jurisdictions. If they want to be successful, however, challenger banks should focus on ensuring they've considered their compliance requirements fully even amidst the rush to be relevant in the market and the industry. ”

Courtney Trimble
Global Leader of Payments,
Principal, Financial Services,
KPMG in the US

Slowdown in investment in insurtech sector amid global uncertainty



Investment in the insurtech sector dropped considerably, with \$3.8 billion of investment globally during H1'22 — well off pace to match the \$14.8 billion in investment seen during 2021. The largest insurtech deal of H1'22 was the acquisition of US-based Zenefits by TriNet for \$220 million. This was followed by several \$100 million+ VC deals, including \$211 million and \$200 million raises by Healthcare.com and Newfront insurance — both in the US, and a \$196 million raise by France-based Alan. The Americas and Europe accounted for the vast majority of insurtech investment, with India-based Turtlemint's \$121 million raise the largest in the Asia-Pacific region. Key H1'22 highlights from the insurtech space include:

Elevated risk causing investors in insurtech to pause

Increasing market risk — including global geopolitical uncertainty, rising inflation and interest rates, and uncertainty around valuations with concerns about a potential global recession — caused investment in insurtech to decline in H1'22 as investors took a pause. Heading into H2'22, investors in insurtech will likely become more strategic about where they are placing their capital, conducting more due diligence and focusing more on the insurtech's 'path to profitability'.

Investor appetite for new business models remains, but experience matters

During H1'22, fewer insurtechs started by founders coming from other sectors raised significant funding. While there continues to be an appetite from investors and corporates to back innovative insurance business models, both interest and funding is expected to focus primarily on startups run by highly experienced entrepreneurs with legitimate insurance industry experience.

Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Depressed valuations could spark M&A activity

In H1'22, public insurtechs saw significant downward pressure on their valuations, similar to many other publicly traded tech companies. Given the decline in valuations, there could potentially be an uptick in strategic acquisitions as insurtechs struggle and corporates — particularly carriers — look to acquire insurtech capabilities at better prices.

Infrastructure and data solutions gaining traction

Insurtech investors are showing significantly less interest in value chain specific point solutions, focusing their attention more on data-driven companies focused on enabling activities and on infrastructure companies working to help sector participants improve efficiencies or extend their value across the value chain.

Embedded insurance still attracting attention

Embedded insurance saw significant hype in 2021; while interest fell back down to earth in H1'22, it has continued to attract attention — particularly from newer carriers looking for growth opportunities. One concern related to embedded insurance is that offerings require startups be very closely integrated with their distribution partners to ensure underwriting risks are well understood.

What to watch for in H2'22

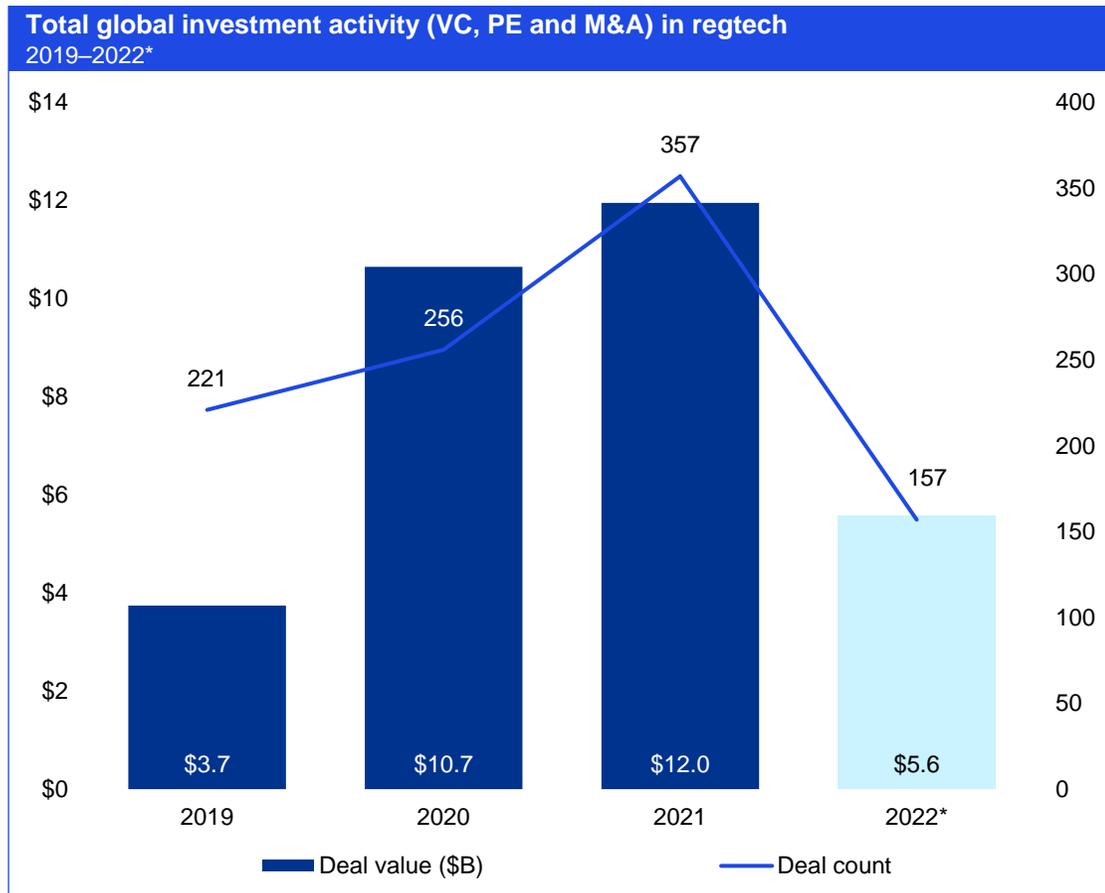
- ongoing evolution and growth of MGAs focused on underwriting specific risks for specific types of customers that large and traditional carriers find difficult to address
- increasing focus on customization of insurance products
- growing focus on insurtechs looking to help companies rethink the protection of their assets and access to those assets.

“ I do see more appetite for early-stage businesses being founded because they are a smaller dollar opportunity and there's more upside for a lot of those investors. Historically, we've seen some incredible businesses being built during economic downturns, funded by early stage seed and Series A investors. The current market environment may make it a bit more difficult to get later stage funding and relatively easier to get early stage funding — but probably not at the founder-friendly economic terms we've seen over the past few years. ”

Ram Menon

Global Head, Insurance Deal Advisory
KPMG International

With \$5.6 billion of investment, global investment in regtech holds strong in H1'22



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Compared to a number of other areas of fintech, global investment in regtech showed strong resilience in H1'22. Globally, regtech companies attracted \$5.6 billion in investment across 157 deals — following a similar trajectory to the level of investment seen in 2021. The US accounted for the largest share of regtech investment during H1'22, including the \$2.6 billion buyout of Bottomline Technologies by Thomas Bravo, the \$450 million Series D raise by ConsenSys, and the \$240 million acquisition of FourQ by cloud-based financial operations company Blackline. Key H1'22 highlights from the regtech sector include:

Americas accounts for lion's share of H1'22 regtech investment

During H1'22, the Americas accounted for the largest percentage of regtech investment, with the US responsible for most of the region's regtech activity. While regtech investment declined across the Asia-Pacific region during H1'22, very active regulatory regimes in jurisdictions like China, Hong Kong (SAR), China and Singapore are expected to keep regtech on the radar of investors over the longer-term. The EMEA region saw a decrease in the speed of maturation of the market during H1'22, although this could be attributed to the turbulence in Eastern Europe.

Rapidly evolving regulatory regimes driving interest in regtech

Regulations related to areas like financial services, cryptocurrencies, data and privacy, risk and compliance, and ESG continued to evolve in H1'22, with more changes forecast over the next 12-24 months. The immense complexity and level of work required by domestic and global companies to be in compliance with constantly changing regulatory requirements both within and across jurisdictions has continued to be a key driver of interest in regtech solutions.

Changing nature of work fostering resilience in regtech investment

COVID-19 significantly changed the way people live and work around the world. Many companies are still grappling with the impact of innovative technologies and models of work on their HR management and risk and compliance processes. This, combined with growing cost pressures and the desire to quickly rein in spend, has likely contributed to the resilience of regtech investment.

Payments system compliance attracts big deals

During H1'22, some of the largest regtech deals centered around payments system processes and compliance, such as the \$2.6 billion buyout of Bottomline Technologies — a company looking to streamline payments processes across global businesses with monitoring and behavioural analysis to detect fraud and reduce risk.

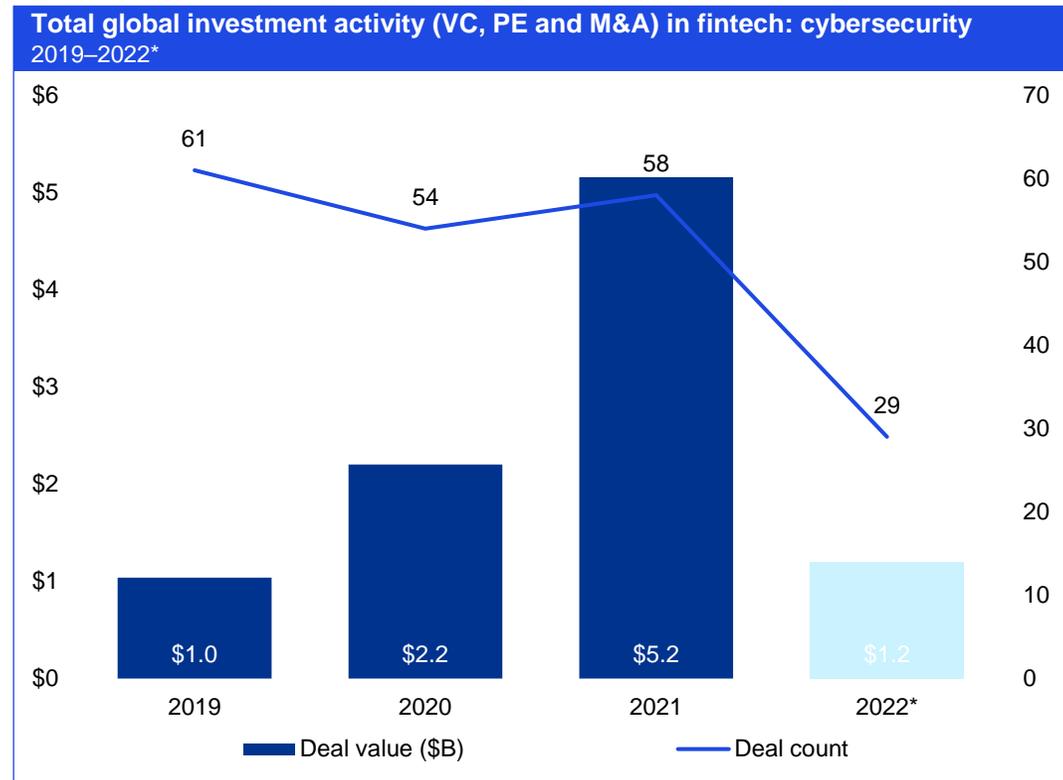
What to watch for in H2'22

- Continued development, evolution, and implementation of regulatory regimes and guidelines, such as MiCA, Basel IV, and ESG standards.
- Financial system regulators widening their expectations beyond traditional banks and financial institutions to include other contributors to the capital markets — such as asset managers and challenger banks.
- Increasing focus on AI-powered identity verification, KYC & AML compliance and identity proofing on order to increasingly automate the prevention and combat of fraud.

“As can be seen from the top deals of 2022 so far, anti-money laundering, fraud prevention, and KYC continue to drive a lot of the investment in the regtech space. The geopolitical situation is only helping the growth of these companies, which will likely keep regtech investment strong heading into H2'22. While we're not seeing it in the market yet, we also expect a new wave of regtech companies focused on supporting ESG reporting and compliance to emerge in the near future.”

Fabiano Gobbo
Global Head of Regtech,
KPMG International

Investor interest in cybersecurity remains hot in H1'22



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

At the end of H1'22, global investment in cybersecurity was running well short of 2021's record, primarily due to the lack of a completed blockbuster M&A deal similar to the \$2.7 billion acquisition of Verafin in H1'21. Despite the lack of completed M&A deals, VC investor interest and investment in the cybersecurity space remained strong — led by four big raises in the US, including a \$550 million raise by Fireblocks, a \$170 million raise by Chainalysis, and \$100 million raises by TokenEx and Cowbell Cyber. Estonia-based Veriff also raised \$100 million during H1'22. The volume of cybersecurity deals globally was also very robust at mid-year, if just shy of record pace. Key H1'22 highlights from the cybersecurity sector include:

Big platform providers focusing on cybersecurity automation

In March, Google announced plans to acquire incidence response company Mandiant for \$5.2 billion, highlighting the immense focus that hyper-scale providers are placing on cybersecurity automation and platform solutions. If completed, the deal would singlehandedly break 2021's record \$5.1 billion in global cybersecurity investment. Google's counterparts have also shown interest in integrating cybersecurity automation into their own cloud platforms. This focus on automation and integration by big providers will likely drive a similar focus among smaller niche and boutique vendor platforms.

Cybersecurity firms buck downward valuation trend

While valuations of companies in many other fintech subsectors have fallen, following the trend seen more broadly among tech companies, valuations of some cybersecurity firms showed strong resilience in H1'22. In particular, companies focused on extreme automation continued to see very high valuations; during H1'22, cyber asset attack surface management platform JupiterOne earned a \$1 billion unicorn valuation following the announcement of a \$70 million Series C raise.²

Rapidly increasing focus on data analytics

Companies today have access to massive amounts of data, including data essential for preventing, managing and responding to cybersecurity issues. During H1'22, investors focused significantly more attention on the integration of data analytics and AI within cybersecurity platforms and solutions, including XDR/EDR focused solutions and security orchestration tools (SOAR platforms).

What to watch for in H2'22

- Increasing consolidation as companies that traditionally focused on one segment of cybersecurity (e.g., endpoint alerting) look to build out their cybersecurity offerings.
- Shift in focus from MDR as a means for conducting level one ticket triage to MDR providing full stack response.
- Continued focus on startups focused on extreme automation.

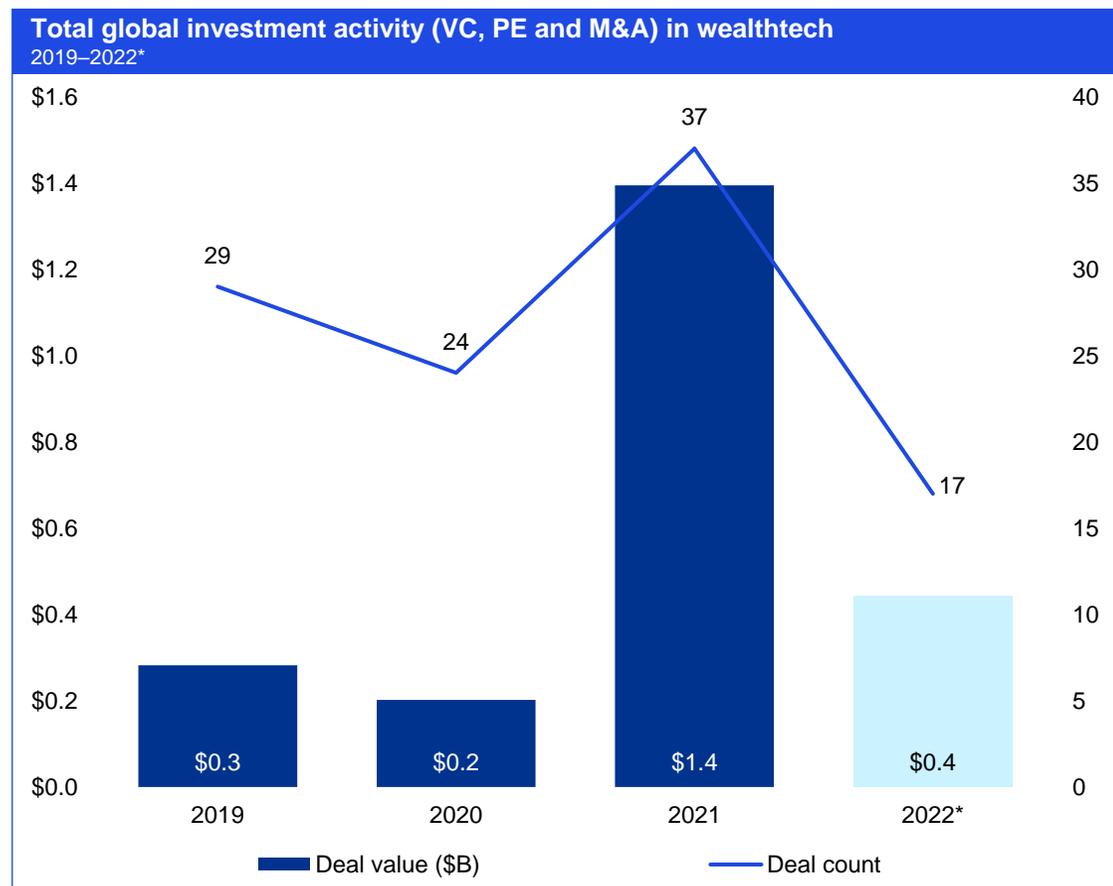
“ There’s a lot of concern out there regarding the sheer number of cybersecurity incidents — the massive amount of data coming into security operations centers through alerts if you will. There’s just so much coming in and not enough security workers out there to simply throw more bodies at the problem. This is why we’re starting to see a lot more focus on automation and machine learning. In 2021, we started to see a lot of machine-learning type algorithms make their way into cybersecurity, but now its really taking off. ”

Charles Jacco

Americas Cyber Security Services,
Financial services Leader,
Principal,
KPMG in the US

² <https://www.prnewswire.com/news-releases/jupiterone-achieves-valuation-of-over-1b-with-70m-series-c-funding-to-fuel-innovation-in-cybersecurity-and-democratize-access-for-all-301559956.html>

Global investment in wealthtech soft in H1'22



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

³ <https://www.prnewswire.com/news-releases/ssc-completes-acquisition-of-hubwise-securities-limited-301510502.html>

After a very strong 2021, wealthtech investment softened considerably in H1'22, mirroring the decline in investment more broadly around the world. Globally, wealthtech attracted \$443 million during H1'22, led by US-based Titan's \$100 million VC funding round, and UK-based MoneyFarm's \$59.8 million PE deal. Key H1'22 highlights from the wealthtech space include:

Fragmented market driving corporate investment opportunities

Globally, the wealthtech sector continued to be quite fragmented in H1'22, with a significant number of small players providing very specialist technology in pockets. This is driving activity among corporates looking to buy access to wealthtech technologies, whether through direct investments or by acquiring full organizations — such as the H1'22 acquisition of B2B advisor platform Hubwise by SS&C Technologies.³

Investors predominantly focusing on established players

While there continued to be dry powder in the VC and PE market in many regions of the world during H1'22, the growing maturity of the wealthtech sector has led to investors taking a more critical view of opportunities. They are now focusing less on making broad investments across the space, concentrating their capital on wealthtechs with truly unique business models and those seen to be more valuable, robust, and financially sustainable compared to their counterparts.

Increasing rationalization of wealthtechs

A significant amount of VC and PE money flowed to early-stage wealthtech companies 3 to 5 years ago. Over the last 12 months, it was predicted that there would be a shakeout among wealthtechs, in part because of industry maturation and also because there's only so much time PE firms will follow their money for before pressing for an exit. The predicted shakeout among wealthtechs is now starting to occur; during H1'22, for example, Blockchain.com announced its acquisition of Singapore-based trading-focused Altonomy, while digital asset platform Amber Group announced its acquisition of Hong Kong (SAR), China based asset management firm Celera Markets.

Continued emergence of hybrid wealth advisory model

During H1'22, hybrid models of wealth advisory continued to emerge, focused on providing technology platforms that enable industry participants — particularly in areas like financial enablement, financial wellbeing, and financial education. This includes the emergence of hybrid solutions focused on helping wealthy individuals make more informed investment decisions.

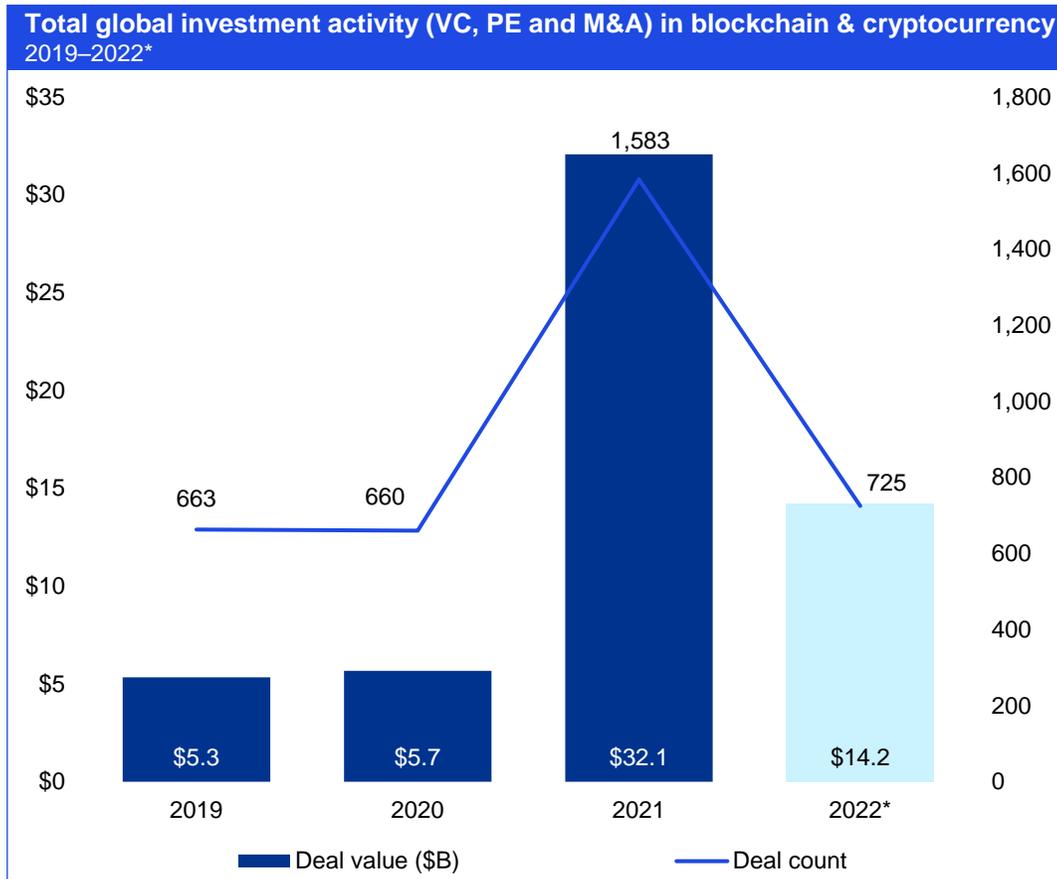
What to watch for in H2'22

- Increasing focus on solutions aimed at the B2B2C market.
- Consolidation across the wealth management and wealthtech ecosystem, including among advisors.
- The large transfer of wealth across generations beginning to drive innovation and the development of unique wealth management solutions.
- Increasing focus on companies focused on helping traditional wealth management firms understand and use their data more effectively.
- Growing focus on ESG, from an investment decision making perspective.
- Burgeoning focus on leveraging open finance and embedded finance to expand wealth management opportunities.

“ Given the range of well-established, robust, and globally recognized platforms like Avaloq, InvestCloud, SS&C, and FNZ, investors are not as interested in small scale middle or back office systems at the moment — but the front office still offers plenty of opportunities for new wave wealthtech providers to gain traction. Looking ahead to H2'22 and beyond, investments in innovative front office wealthtech solutions will be a key area to watch. ”

Shelley Doorey-Williams,
Partner, Wealth and Asset
Management Consulting
KPMG in the UK

Investment in crypto and blockchain falls from 2021 high, remains ahead of all other years



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

After a record-shattering 2021, global investment in crypto and blockchain fell to \$14.2 billion during H1'22. Despite the crypto space collapsing significantly since mid-way through Q1'22 due to the unexpected Russia-Ukraine conflict, rising inflation, and the challenges experienced by the Terra crypto ecosystem, investment at mid-year remained well above all years prior to 2021. This highlights the growing maturity of the space and the breadth of technologies and solutions attracting investment. During H1'22, the largest deals in the space came from VC raises, including a \$1.1 billion raise by Germany-based Trade Republic, a \$550 million raise by US-based Fireblocks, a \$500 million raise by Bahamas-based FTX, and a \$450 million raise by ConsenSys. Key H1'22 highlights from the crypto and blockchain space include:

Changing nature of investors shifting crypto investment risk profile

Prior to 2018, most crypto investment came from retail consumers. Since then, the investor profile has changed, with institutional and corporate investors now accounting for a much larger share of investment. This has driven significant changes to the perception of risk related to crypto assets. While crypto assets historically were considered quite uncorrelated to traditional assets from an investment risk perspective, they are now acting very similarly. The current macro-economic trend will likely be an important test for cryptos, and especially Bitcoin, in terms of correlation with other assets.

Growing focus on currency sovereignty

In the wake of El Salvador adopting Bitcoin as legal tender in 2021, there has been increasing interest in the use of cryptocurrencies in order to support crypto sovereignty and move away from the use of existing currencies like the US Dollar. During H1'22, the Central African Republic became the second country to make Bitcoin legal tender. Other developing nations could follow their lead in H2'22 and beyond.

Regulators continuing to focus on crypto regulation

While China has banned crypto trading outright, and India is considering following suit, the regulators in a number of other jurisdictions have continued to focus on finding ways to protect consumers while also fostering the evolution and growth of competitive and attractive crypto markets. At the end of H1'22, the European Union agreed to new regulations for the cryptocurrency industry — Markets in Crypto-Assets (MiCA).⁴

What to watch for in H2'22

- Resilience of crypto-focused companies being tested very hard as some look to recapitalize at lower valuations.
- Well-managed crypto companies with healthy risk management policies, long-term vision, and strong cost and risk management approaches surviving, while others bust.
- Growing focus on solutions related to compliance and crypto transaction traceability.
- Increasing interest in stablecoins, particularly from corporates looking to gain the operational advantages of crypto, including costs, delays, visibility, liquidity, and ease-of-use.
- Innovative partnerships between crypto firms and companies in other industries in order to address ESG concerns.

“ Looking ahead, we are going to see some cryptos cutting their valuations and working to raise money because it's their only option. They'd rather raise money and be capitalized at a lower valuation rather than not doing so and taking the risk of dying out. Of course, some cryptos will die out — particularly those that don't have clear and strong value propositions. That could actually be quite healthy from an ecosystem point of view because it'll clear away some of the mess that was created in the euphoria of a bull market. The best companies will be the ones that survive. ”

Alexandre Stachtchenko
Director blockchain & crypto assets
KPMG France

⁴ <https://www.cnbc.com/2022/06/30/eu-agrees-to-deal-on-landmark-mica-cryptocurrency-regulation.html>

Featured interview

with Rob Schimek, CEO bolttech

Enabling the future: How fast-growing unicorn bolttech is forging a global tech-enabled insurance ecosystem



Enabling the future: How fast-growing unicorn bolttech is forging a global tech-enabled insurance ecosystem

Among the industries that make up global financial services, insurance is still considered ripe for disruption in many jurisdictions around the world. Over the last 2 to 3 years, VC investors in the Americas, the Asia-Pacific region, and Europe have shown keen interest in the space, investing in a broad range of startups looking to disrupt or improve various aspects of the insurance value chain. Standing out from the crowd of insurtechs working to redefine the future of insurance is Singapore-based bolttech — a fast-growing unicorn company that has developed a highly successful tech-enabled insurance exchange offering focused primarily on the B2B2C market. “The mission of bolttech is to become the world's leading technology-enabled insurance ecosystem,” says Group CEO Rob Schimek. “We connect insurers, distribution partners, and customers — making it easier and more efficient to buy and sell insurance.”

Leveraging partner ecosystems to drive growth

Bolttech officially launched in 2020. The company was initially conceived within an existing insurance ecosystem and scaled very quickly, the company's rapid global expansion since its inception is a testament to its broader partnership approach. “Many of our partners have ecosystems, and we continue to tap into those to make a confluence...a mega ecosystem [for insurance].” Schimek says.

Bolttech's approach has been incredibly effective. In less than 2 years, the company has grown into the most international insurtech in the world, with a presence in over 30 countries spread across the Asia-Pacific region, Europe, and the Americas. In 2021, it raised the largest Series A round ever (\$247 million) by an insurtech company, earning coveted unicorn status with a \$1 billion+ valuation. In 2021, bolttech quoted approximately \$44 billion in premiums through its platform.

Combining technology, access, and bespoke solutions

Bolttech's value proposition goes beyond providing the innovative technical infrastructure that enables any business to sell insurance. The company also makes the process of providing insurance more accessible and seamless to partners outside of the insurance industry by maintaining insurance licenses in numerous jurisdictions.

Bolttech currently holds 35 insurance licenses globally, in addition to licenses in all 50 U.S. states. “[These licenses] are part of the moat that makes it very difficult for others to come in and compete so easily,” Schimek notes. “They're a critical linchpin to our ability to offer partners expertise and access to multiple markets with ease because insurance is, in fact, a very highly regulated business.”

Bolttech's insurance licenses make it easy for its partners to integrate insurance offerings into their own products and services at speed, and then scale them as needed across different geographies. Bolttech's partners also benefit from the company's ongoing innovation focus. “We have three tech hubs located across Europe and Asia,” Schimek says. “Our partners are able to leverage this global network and tap into our industry-leading new and emerging technologies — which include, among other things, blockchain biometrics and edge computing.”

While forging a robust end-to-end digital process is a dream goal for many companies today, bolttech recognizes that many companies are simply not ready to go completely digital. That's why the insurtech is also valued for its ability to provide bespoke products that meet unique customer needs, including online and offline sales support and robust after-sales service that allows partners to increase their customer lifetime value and customer loyalty.

Schimek sees bolttech's partnership-based approach as a win-win value proposition because by developing robust relationships with its partners, bolttech often has the opportunity to enter new markets through them. "In 2021, we entered six countries in Europe with our valued partner Samsung — who we were already working with in Asia," he offers as an example.

Looking to the future: Reaching bolttech's full potential

When asked about bolttech's future plans given the challenges facing the world today, Schimek stresses the importance of being resilient. "If the last few years have taught us anything, it's that you have to build resilience against the uncertainty and disruption that's caused by these impossible to predict external circumstances," he explains. "But, these things also present challenges and opportunities for us — and we have to make sure that we can separate the challenges from the opportunities."

One of bolttech's biggest challenges is that most of its growth has occurred in a time where travel has been severely curtailed. Schimek notes that they've launched greenfield businesses in markets he still hasn't been able to visit. But bolttech's success despite travel restrictions and other challenges has him feeling quite optimistic about the future. "While we've achieved tremendous results and endeavoured to deliver a consistent and unified employee experience, we've done it under really non-ideal circumstances," he says. "So, I'm really excited about what we can do to reach our full potential as the world starts to open up and we can begin to bring our teams together."



Listen to the full interview with KPMG's Global Fintech Leader, Anton Ruddenklau and Rob Schimek CEO of bolttech. home.kpmg/fintechpulse

Launched in 2020, bolttech is a high-growth international insurtech with a mission to build the world's leading, technology-enabled ecosystem for protection and insurance. Bolttech serves customers in 30 markets across North America, Asia and Europe. With a full suite of digital and data-driven capabilities, bolttech powers connections between insurers, distributors, and customers to make buying and selling insurance and protection products easier and more efficient. Bolttech's leading insurance exchange quotes more than US\$44 billion in premiums annually, and counts more than 700 distribution partners and 180 insurers globally. This extensive distribution network is enabled by pioneering technology, and supported by deep insurance expertise and licenses across 35 international jurisdictions.

#fintechpulse

Spotlight

**Embedded finance fueled by cloud-based
core banking technologies**

Embedded finance fueled by cloud-based core banking technologies

Contributors: Scott Huie, Advisory Managing Director, KPMG in the US and Craig Thomason, Contributing Executive, KPMG in the US

Embedded finance is spawning new opportunities for traditional banks and non-financial services organizations alike. As digital technologies advance to meet increasingly sophisticated customer expectations, embedded finance makes banking capabilities from payments to offers for credit available through more access points. Retailers, platforms and B2B Corporates can embed financial services in a much wider range of consumer and commercial settings.

Think of this as the digitalization of established models. Just as finance has long been available during the physical sales experience of buying a car, services such as buy now, pay later are now on offer at the eCommerce point of sale.

Upgrading the core

Crucially, however, embedded finance — like so many other digital banking innovations — relies ultimately on contemporary core banking technologies. It provides yet another reason for banks to reach their tipping point: the moment when they decide it is no longer possible to rely on legacy systems, and that now is the moment to pivot to a new core banking platform. This is how banks aim to meet the increased demand for new and unique digital experiences to retain and attract customers.

Multiple use cases now demand such change: new core technology will sustain innovation such as predictive balance recognition, delayed payments authorization, contextual behavior modeling used to deliver compelling point of sale offers and real time banking services that are either event driven or predictive in their nature. And there are also other drivers for a shift to cloud-native, consumption-based platforms:

- to leverage the elasticity of the cloud to allow banks to meet demand, test new value propositions, and to iterate faster with reduced upfront capital investment to drive faster speed to market for products and partners by leveraging an API-first core
- to drive faster speed to market for products and partners by leveraging an API-first core
- to enable better and faster access to data for insights on customers and other analytics
- to improve transaction processing speeds that are required for modern digital commerce use cases in e-commerce, platforms and account to account services.

These market dynamics and realities gave rise to **Finxact**, an alliance partner for KPMG in the US, which saw an opportunity to re-shape the future of the core banking technology stack. It designed a modern platform built on a microservices-based architecture, real-time, event driven and cloud-native solution — Finxact Core as a Service. The Finxact team spent five years re-imagining and delivering a new and innovative platform designed from the ground up without burdens from legacy banking. Finxact is now proven in the U.S. market with more than 30 banks and fintechs having adopted the Finxact platform.

Built leveraging decades of knowledge in this technology area, the Finxact solution is an approach by a non-traditional FinTech. Rather than focusing on more front-end digital user models, it chose to target the banking core with the aim of enabling the open accessibility, flexibility, scalability and speed required for banks to help meet evolving customer expectations..

“Finxact is uniquely positioned to lead on the evolving needs of the market, everything from helping banks launch new innovative products to powering embedded banking to decentralized finance and other Fintech and BaaS offerings” says David Ortiz, Head of Partnerships and Business Development at Finxact.

Building on stronger foundations

Banks that invest in this way can discover advances in embedded finance, now set to grow and evolve due to rapidly changing customer needs and expectations. We expect additional enhancements that allow banking to be vertically embedded into experiences and processes, many of which are hard to predict. They will likely include ‘mash up’ experiences of banking within non-banking experiences — models to be built upon and improved.

For those with a strong core, the future of innovation and customer benefit is wide-open for embedded finance.

Nevertheless, companies investing in embedded finance services should manage risks carefully. To meet customer needs and demands with the right solutions, they must address key questions:

- *What do customers want and need?* It remains as important as ever to “create a customer” through your product or services. How do you identify new innovations that customers need but do not know they want yet? This goes beyond just asking customers via surveys.
- *What does the current economic environment allow and/or need?* This is a particularly relevant question now as spending trends are changing; this could create opportunities for legacy providers, or for newer companies to step up in the wake of these changing economic patterns.

- *Is there a long-term path to profit?* Profitability matters. Identification of the right segment, solution, entry point and plan for growth is a critical strategic step.
- *What regulatory and compliance requirements need to be met? Are there new regulations around the corner?* Compliance with regulations and requirements for customer protection and maintaining safety and soundness is paramount. It will be important to monitor future regulatory trends and build in flexibility to meet them.
- *Are there new technology capabilities that could render investment obsolete?* A thorough analysis of the market is critical to understanding and selecting the best technology strategy.

Served by a dynamic ecosystem

The digital marketplace is fueled by core economic principles of supply and demand and this applies to embedded finance.

Demand is driven by better and seamless experiences by customers who have amazing technologies at their fingertips and want — and expect — more of the same. Typically this is the “customers customer” of a legacy financial services organization.

Supply is driven by modern technology capabilities and skills to deliver on this demand; this means both technology and human capital skills are critical to meeting customer expectations.

The supply side ecosystem includes Fintechs, other third-party services companies (including KPMG), non-financial companies such as retailers, and traditional banks. And more and more banks are investing in new customer-centric technology enablement and talent, whether directly or partnering with third-party providers to help accelerate embedded banking.

Customers can benefit from having more options open to them in a straightforward and secure experience. Banks can benefit from additional sources of income and by staying in front of customer expectations through extension of banking services into non-banking distribution channels. Fintechs can benefit from delivering their services directly and/or with banks and non-banking clients to generate fee-based income and foster trust with their customers. And non-financial organizations such as retailers can benefit from increased sales, lower acquisition costs and improved customer loyalty through new digital access points.

Safety, soundness and customer expectations

Not long ago, shadow banking was on the rise with new money lenders and fast-finance players emerging to offer finance at often exorbitant rates. One positive aspect of embedded finance, enabled by a renewed core, is that it brings more finance, credit, and payments services back into the regulated banking space. That aligns customer behaviors and experiences to established safety and soundness practices. Banks must meet high standards, with multiple agencies holding them accountable for regulation and compliance; this oversight can help ensure consumer trust in embedded finance capabilities.

Well-managed and carefully scoped embedded finance propositions can enhance customer experience, drive innovation, and provide value in a safe and sound manner. Those are big wins for the customers, businesses, and corporate clients using them.

For this reason, we believe embedded finance will continue to grow and that it can be a positive force for the industry as a whole — and, most importantly, for the customers that use it.

In H1 2022, fintech investment in the Americas reached \$39.4B with 1,430 deals

Americas attracts \$39.4 billion in fintech investment in H1'22, down from \$59.7 billion in H2'21

Despite a dip in quarterly investment to \$22.7 billion, the Americas saw a record 806 deals in Q1'22, highlighting the strength of the fintech market in the region at the start of 2022. As geopolitical uncertainty and macroeconomic challenges increased towards the middle to end of the quarter, fintech investors pulled back somewhat. Total investment dropped to \$16.8 billion across 624 deals in Q2'22, bringing the investment total to \$39.4 billion across 1,430 deals for the first half of the year.

The US accounted for the largest deals in the Americas during H1'22, including the \$2.6 billion buyout of Bottomline Technologies by PE firm Thomas Bravo, the \$1.2 billion buyout of SimpleNexus by nCino, the \$1.1 billion acquisition of Technisys by SoFi, and the \$748 million VC raise by Ramp. Key H1'22 highlights from the Americas include:

US attracts vast majority of fintech investment in Americas

The US accounted for \$34.9 billion of fintech investment in the Americas during H1'22, a drop from \$49.7 billion in H2'22. Fintech investment outside of the US dropped even more prodigiously in the wake of the rapid rise in global geopolitical and macroeconomic uncertainty — with Brazil and Canada seeing declines in investment greater than 50 percent between H2'21 and H1'22. Brazil saw fintech investment drop from \$3.7 billion to \$1.4 billion, while Canada saw investment fall from \$1.9 billion to \$810 million.

Investors turning focus to profitability and cash flow

Given rising interest rates, increasing levels of inflation, and growing concerns about an economic recession, fintech investors across the Americas enhanced their focus on profitability, top-line revenue growth and cash flow when evaluating targets and companies within their portfolios. Investors have also started to consider the potential of companies to deliver returns given the changing market conditions.

Declining valuations in many fintech subsectors

Given macroeconomic conditions, many public companies have seen significant downward pressure on their valuations, including many previously frothy tech companies. While the private markets have not seen adjustments to the same degree as of yet, there could be a number of downrounds heading into H2'22 as fintechs look to raise capital given the downward pressure on valuations.

Interest in challenger bank market remains quite strong

Within the Americas, challenger banks continued to attract attention — particularly in Latin America, where challenger banks are focusing on middle market consumers and small businesses — large populations seen as underserved historically. Interest in challenger banks is also growing in Canada, where the banking market has long been dominated by a small number of big banks.

Slowdown in funding, particularly in blockchain and crypto

After a record-breaking year of crypto and blockchain investment in the Americas during 2021, investment in the space slowed during H1'22. While investment remained very strong compared to pre-2021 results, led by January raises by US-based Fireblocks (\$550 million) and Bahamas-based FTX, H2'22 could present more challenges for companies in the sector.

Trends to watch for in H2'22

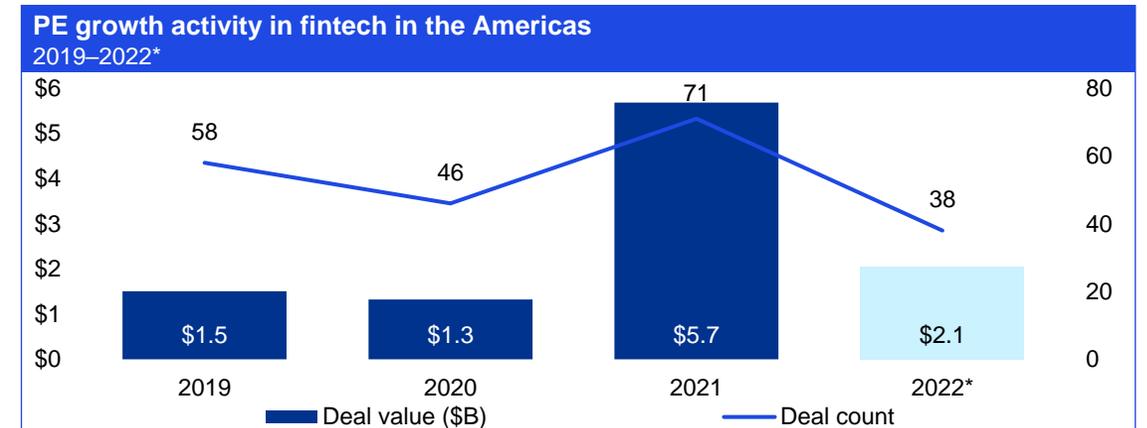
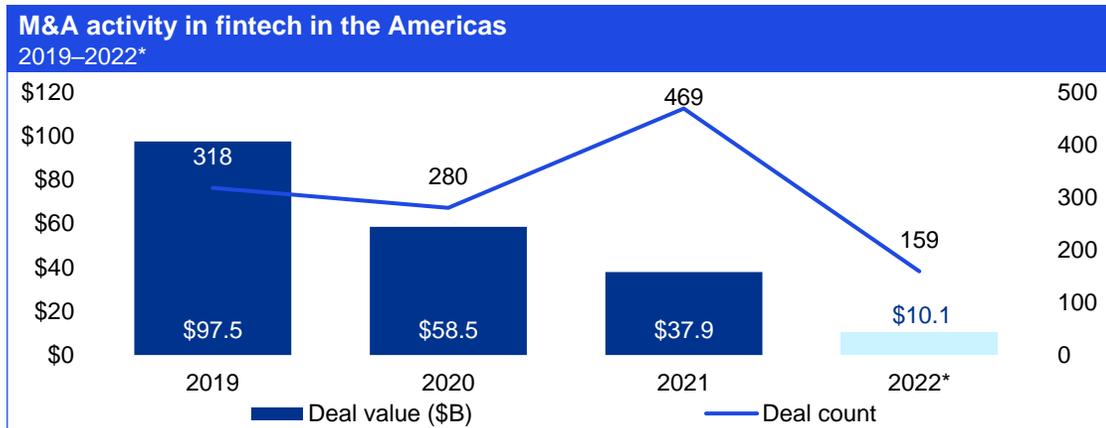
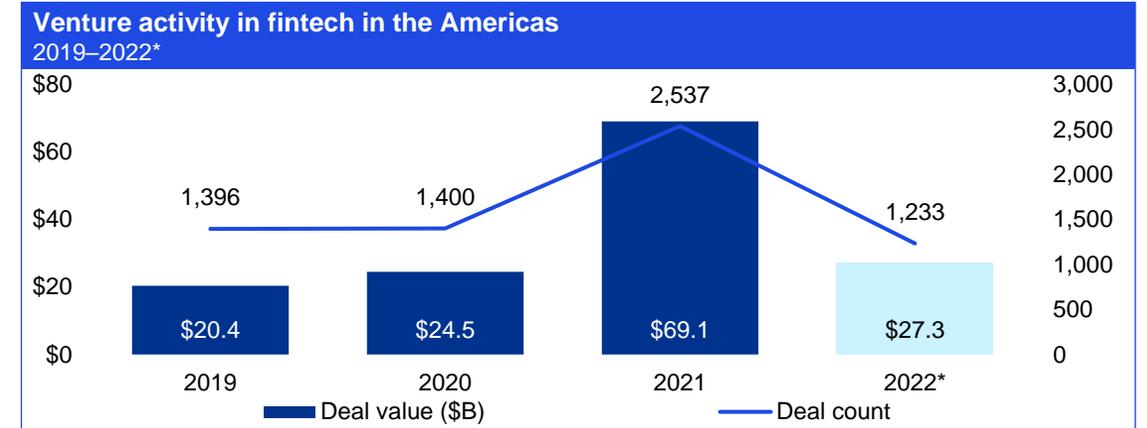
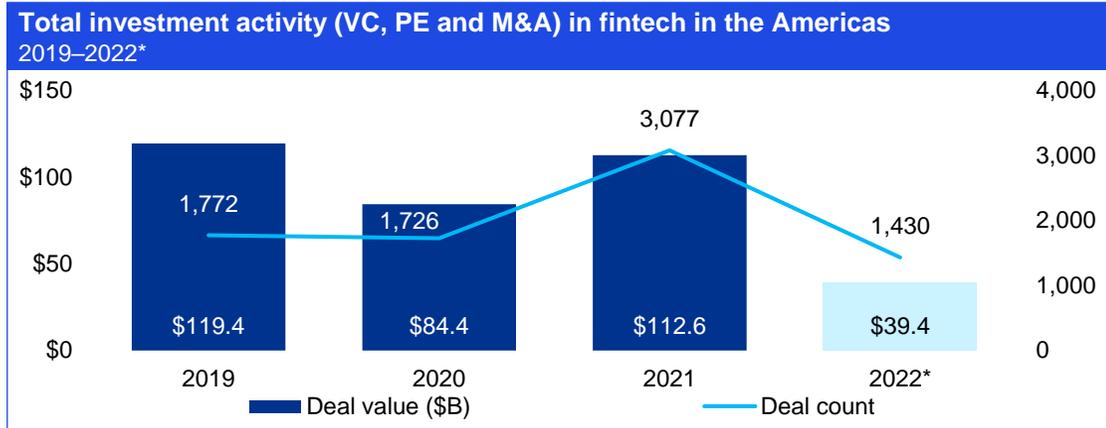
- VC firms becoming more aggressive as fintechs look to raise additional capital.
- Increasing interest from investors in M&A opportunities in the Americas as valuations come down.
- Regulators focusing more heavily on the cryptocurrency space in order to protect consumers.
- Continued absence of IPO activity — and the dissolution of some SPACs.
- Investment in payments and cybersecurity showing some resilience.

“ VC and PE firms have raised a lot of money, especially in the later half of 2021, so funds are still very liquid. As valuations come down and stabilize and investors become more comfortable with what the outlook looks like, we may see deal activity pick up, but investors are going to want to provide funding at much different valuations than they did before. Many will also want to extract more ownership out of their investments than maybe they've been able to over the last year or 2. ”

Robert Ruark

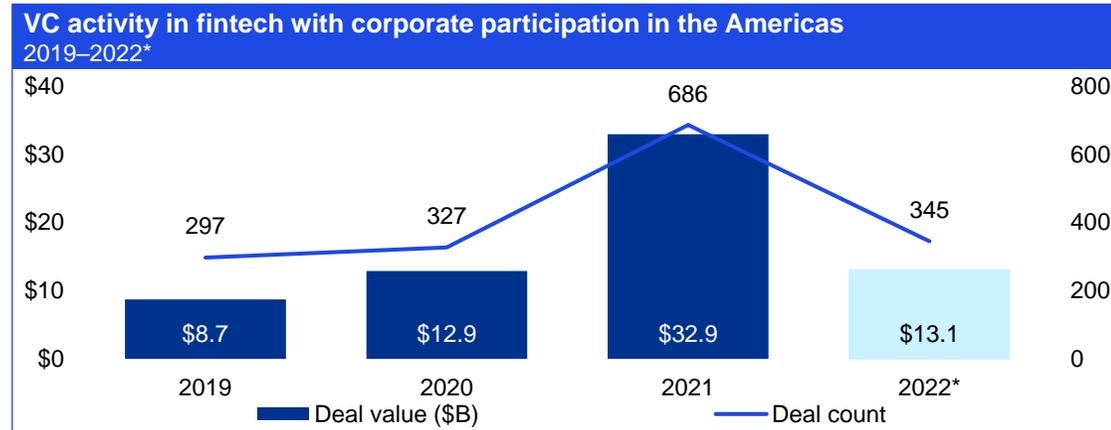
Principal, Financial Services Strategy and Fintech Leader, KPMG in the US

After a record year, dealmaking is still proceeding at a robust, if not accelerated, clip

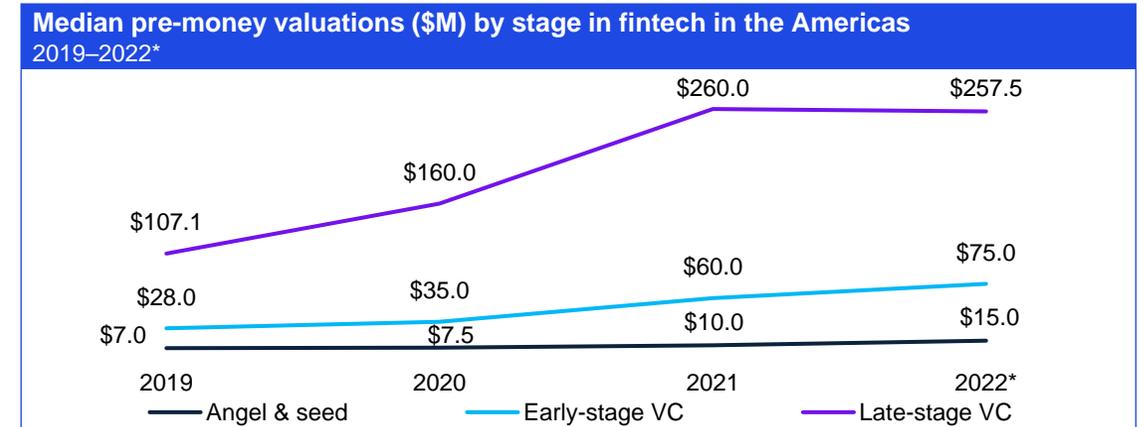
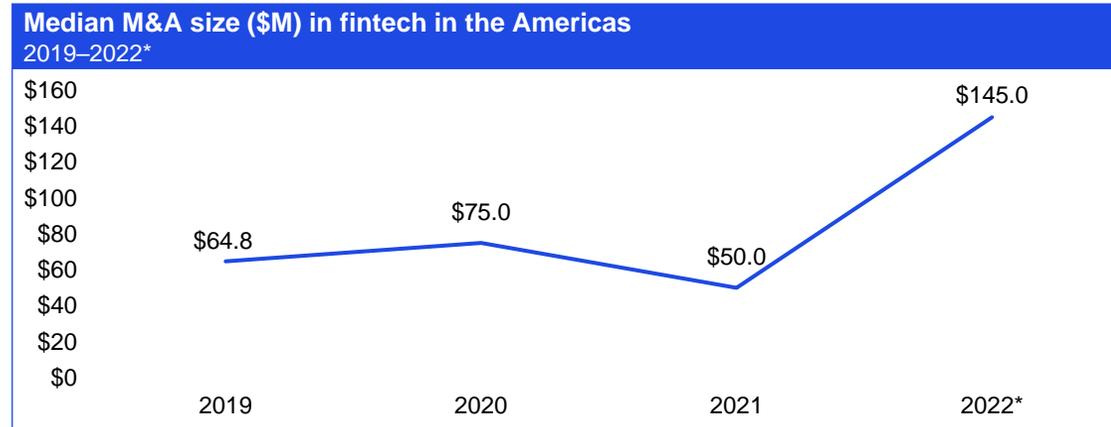


Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Financing metrics have yet to slide

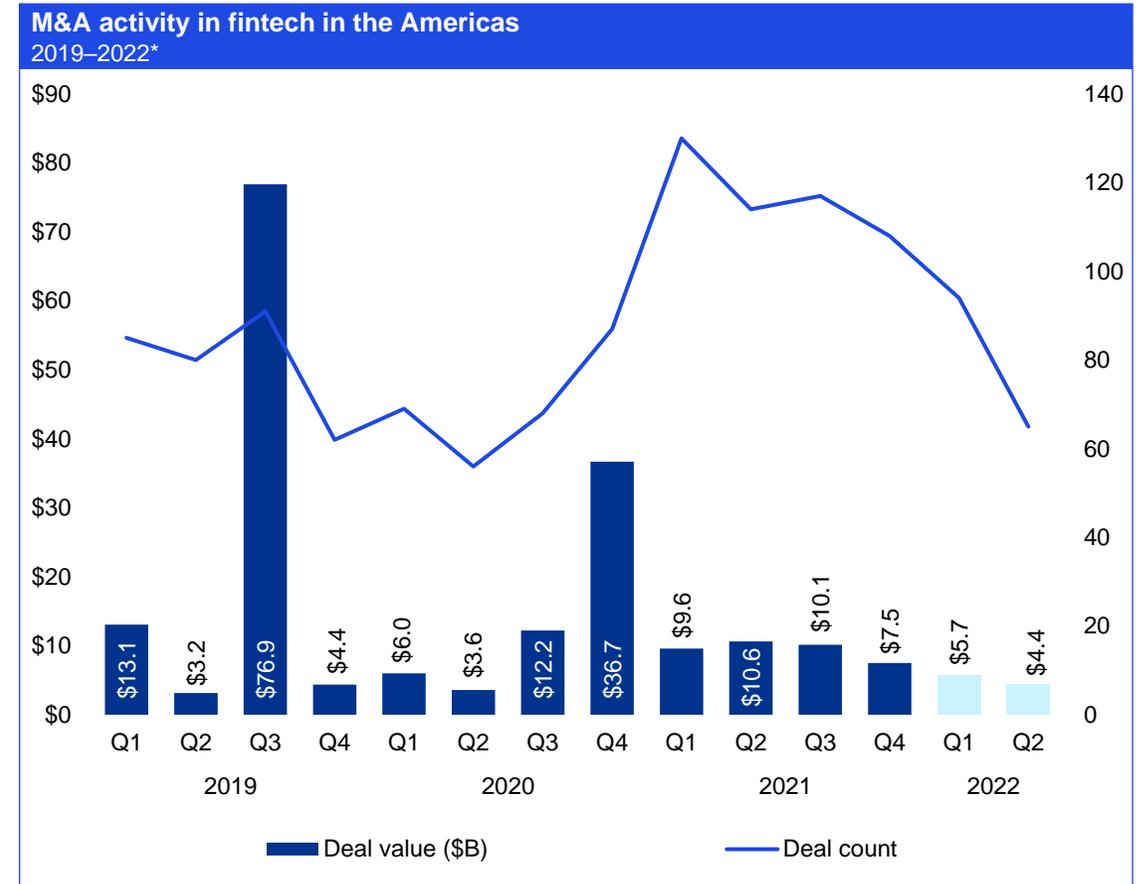
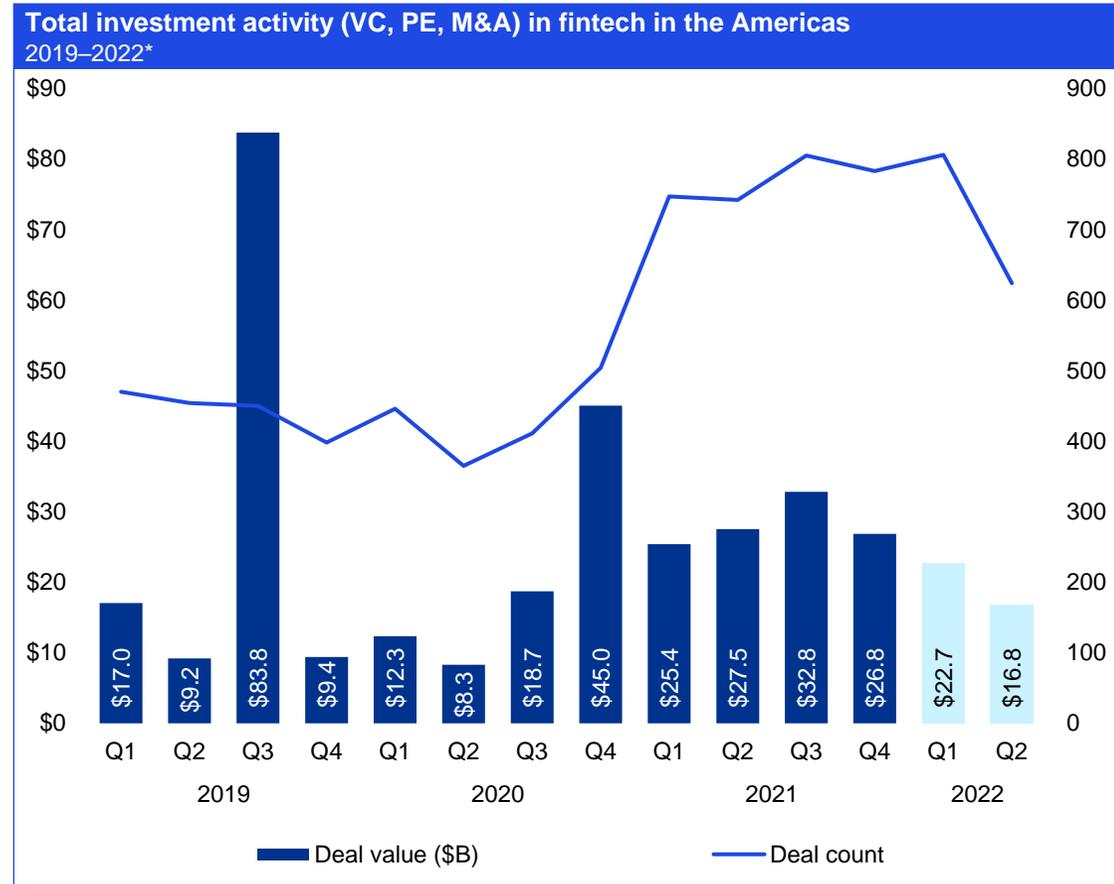


Given all the volatility across financial markets and economies, thanks to a powerful combination of geopolitical tension, outright conflict, ongoing supply chain issues and more, it could be likely that eventually deal flow will subside further. However, currently, financing metrics remain elevated if not at record levels, with valuations and M&A sizes holding steady. On the venture side, that is partially due to the sheer amount of dry powder underpinning investment levels and the number of fund managers still looking to follow their mandates even in a challenging environment. On the M&A side, it is likely that dealmakers are capitalizing upon any opportunistic consolidation as well as closing deals sooner rather than later before financing conditions could turn.



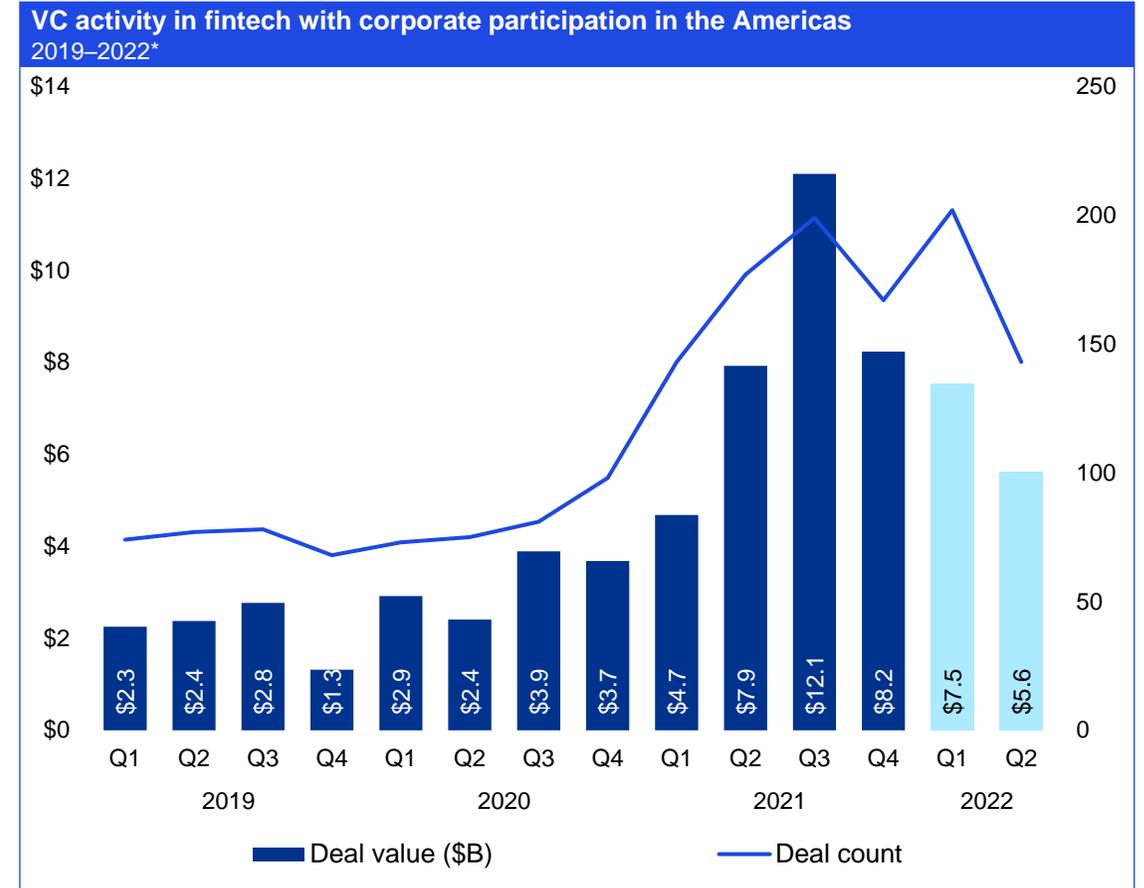
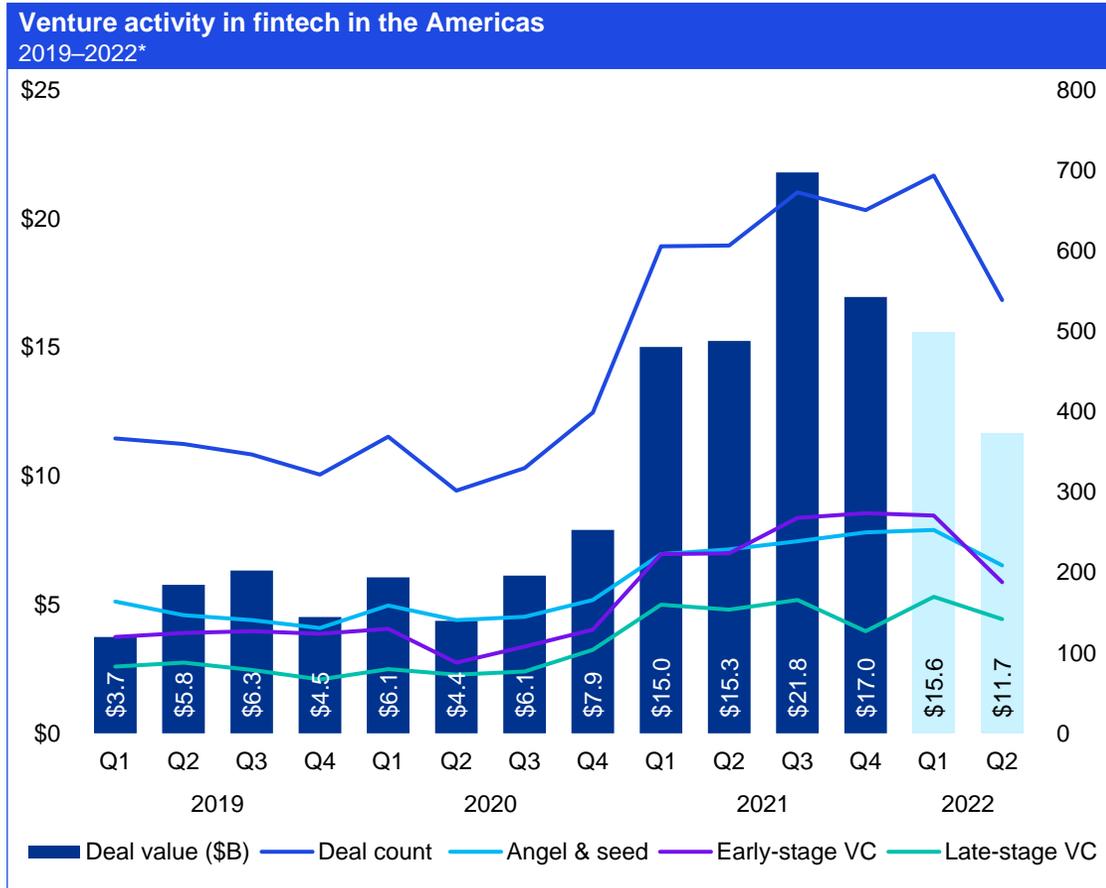
Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

M&A volume continues to slide



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

VC invested stays relatively healthy



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Top 10 fintech deals in the Americas in H1 2022



1. **Bottomline Technologies** — \$2.6B, Portsmouth, US — Institutional/B2B — *Public-to-private buyout*
2. **SimpleNexus** — \$1.2B, Lehi, US — Lending — *M&A*
3. **Technisys** — \$1.1B, Miami, US — Institutional/B2B — *M&A*
4. **Ramp** — \$748.3M, New York, US — Institutional/B2B — *Series C*
5. **Finxact** — \$650M, Jacksonville, US — Institutional/B2B — *M&A*
6. **Fireblocks** — \$550M, New York, US — Blockchain/cryptocurrency — *Series E*
7. **Forge Global** — \$532.5M, San Francisco, US — Capital markets — *Reverse merger*
8. **Crusoe Energy Systems** — \$505M, Denver, US — Institutional/B2B — *Series C*
9. **FTX** — \$500M, Nassau, Bahamas — Blockchain/cryptocurrency — *Series C*
10. **Liquidity Group** — \$475M, New York, US — Institutional/B2B — *Late-stage VC*

Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

In H1 2022, investment in fintech companies in Europe, Middle East and Africa (EMEA) recorded \$26.6B with 939 deals

EMEA attracts \$26.6 billion in fintech investment, including record \$16.6 billion in VC funding, in H1'22

Total fintech investment in the EMEA region dropped from \$31.6 billion to \$26.6 billion between H2'21 and H1'22, driven by a decline in M&A deal value — which sank from \$15.7 billion in H2'21 to \$7.2 billion in H1'22. The region saw only two \$1 billion+ M&A deals during H1'22: the \$3.9 billion merger of Italy-based Nexi and SIA and the \$1.8 billion acquisition of UK-based Interactive Investor by Abrdn.

Despite the decline in M&A and rapidly evolving geopolitical and macroeconomic challenges, fintech-focused VC and PE funding was incredibly robust in H1'22. VC investment rose from \$14.3 billion to \$16.6 billion between H2'21 and H1'22 — slightly eclipsing the previous record high of \$16.4 billion set in H1'21. PE funding also saw a record high of \$2.8 billion in H1'22, including a quarterly record of \$2.1 billion in Q1. Key H1'22 highlights from the EMEA region include:

Banks transforming into tech companies

In the EMEA region, some banks that have developed AML and AI-focused solutions and tools in-house are now looking at how they can commercialize these to other financial institutions. During H1'22, Belgian bank KBC launched a new subsidiary focused on bringing its AI applications and tools to other banks, with the first product targeted at combating financial crime.⁵

Investors focusing on business fundamentals

Faced with numerous uncertainties, including the Russia-Ukraine conflict, rising inflation, and rising interest rates, investors in the EMEA region have shifted their primary focus from growth to value. Valuation multiples have decreased significantly for some players (e.g., buy-now-pay-later giant Klarna which heavily

focused on growth, saw its valuation drop 85 percent compared to last year⁶).

There is now a lot more emphasis on business fundamentals when making investment decisions, evaluating the sustainability of business models, how profits are generated, and whether cash is being generated or consumed for growth.

Embedding finance and banking as a service high on the agenda

Profitable players such as Starling Bank⁷ and ClearBank⁸ that facilitate non-financial companies to move into financial services have been able to raise extra funding to grow their expansion further.

“ Open banking has for some time offered so much opportunity. However, it has been somewhat perceived by incumbents as a regulatory compliance program with many banks needing to manage a significant uplift in technology capability to meet the standards. More recently though, we are seeing this capability being a key focus in how banks, powered by fintech partners, are offering new services that streamline account opening, lending and financial insights. ”

Anna Scally
Partner
KPMG in Ireland

⁵ <https://www.globenewswire.com/news-release/2022/03/07/2397559/0/en/KBC-Group-launches-its-own-AI-fintech-DISCAI-a-separate-legal-entity.html>

⁶ <https://techcrunch.com/2022/07/11/klarna-confirms-800m-raise-as-valuation-drops-85-to-6-7b/>

⁷ <https://www.finextra.com/newsarticle/40133/starling-bank-lifts-valuation-to-25-billion-on-1305-million-internal-raise>

⁸ <https://techcrunch.com/2022/03/18/clearbank-a-uk-banking-rails-provider-raises-230m-from-apax-to-expand-into-europe-and-the-u-s/>

Regtech automation gaining attention

Juggling the ongoing avalanche of regulation in the EMEA region and the constant need for more resources to manage compliance has been a major struggle for businesses. With inflation driving operating costs up, there is further increasing interest in affordable compliance solutions and regtech automation that can help make compliance affordable, efficient, and manageable.

Regulatory environment for blockchain continuing to evolve

During H1'22, the blockchain space reached a significant milestone in Europe with the publication of the Regulation on the EU pilot regime for market infrastructures that use distributed ledger technologies⁹. The regime is effectively a regulatory sandbox. This new program aims to breathe extra institutional interest into blockchain technology in financial services along with the much anticipated Markets in Crypto Assets Framework (MiCA), and the growing interest in central bank digital currencies, with the digital euro potentially to come as soon as 2026.¹⁰

Trends to watch for in H2'22

- Investors spending more time with their current investment portfolio companies to help them through the uncertainty that exists rather than focusing on diversification and new investments.
- Rising interest rates giving banks more cash to spend and more ammunition to invest in strategic players.
- Increasing consolidation across the fintech space as investors become more discerning, weaker fintechs struggle to survive, and well-capitalized companies look to take out some of their competition.
- Fintechs focused on broader ESG and sustainable finance starting to secure more funding than has been seen to-date as regulators have made clear their expectations on firms monitoring and managing their financial risks.¹¹ The investment of capital markets actor Euroclear in Greenomy is a case-in-point.¹²
- The fallout of the collapse of the crypto space and any side effects it has on the traditional investment world and on future regulatory action.

“ Regtech has been hot in the EMEA region in the last few months. In particular, there has been strong interest in AML applications as banks struggle with the list of sanctions, embargos, and other measures they need to implement. Right now, AML is at the very top of the agenda for many of the banks and financial institutions in the region. ”

Dave Remue
Director
KPMG in Belgium

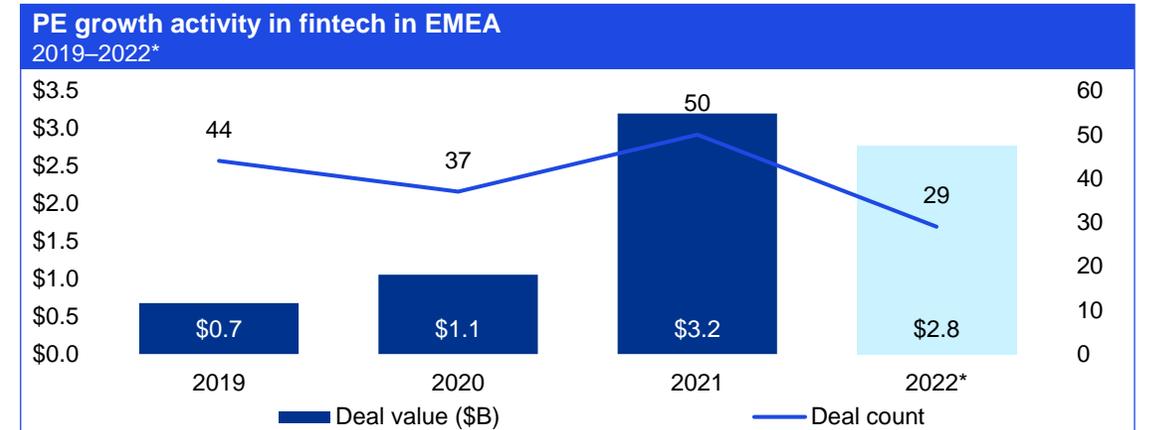
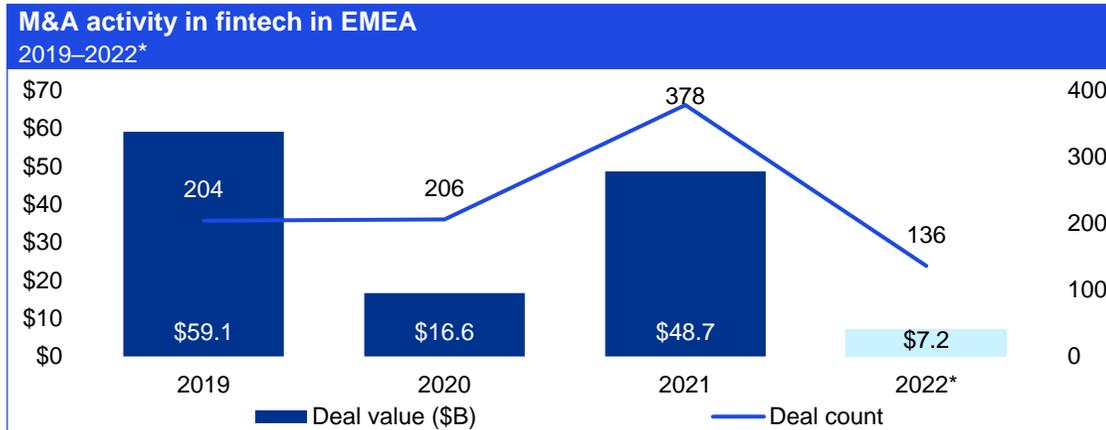
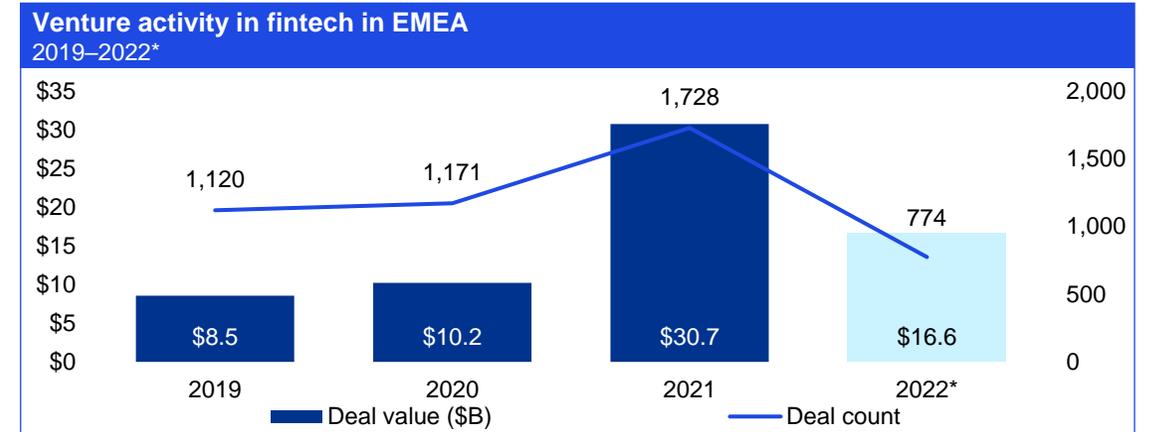
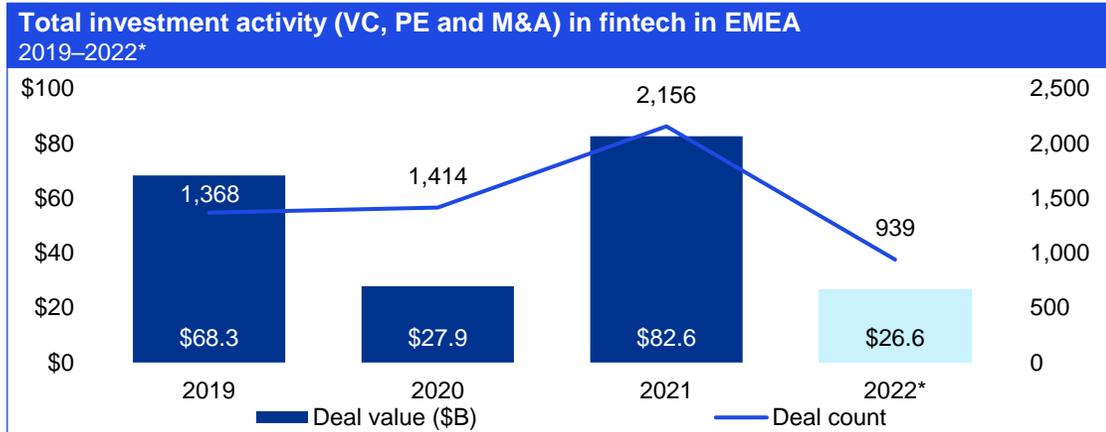
⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0858&from=EN>

¹⁰ <https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220516~454821f0e3.en.html>

¹¹ <https://home.kpmg/xx/en/home/insights/2022/02/esg-regulatory-essentials.html>

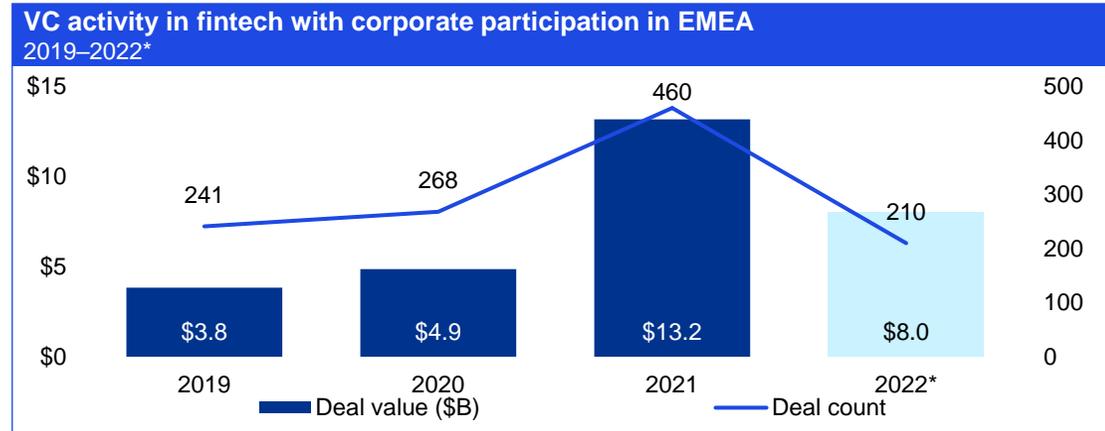
¹² <https://www.finextra.com/newsarticle/39608/euroclear-invests-in-sustainable-finance-platform-greenomy>

After a record year, 2022 dealmaking slows, yet does not collapse

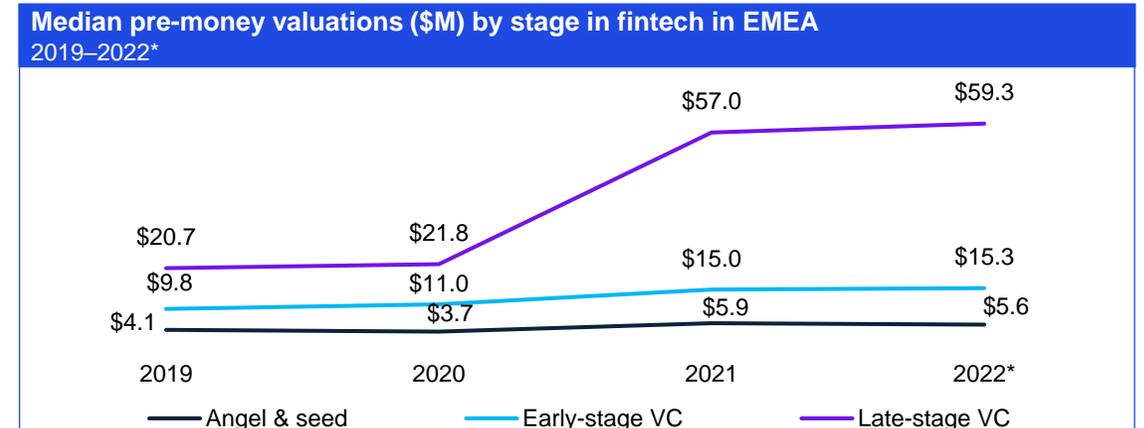
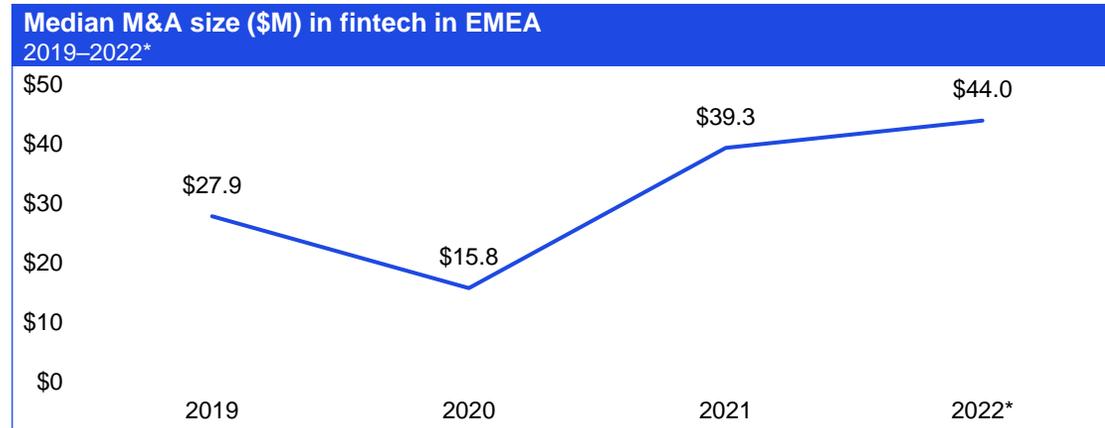


Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Medians for financing metrics remain resilient

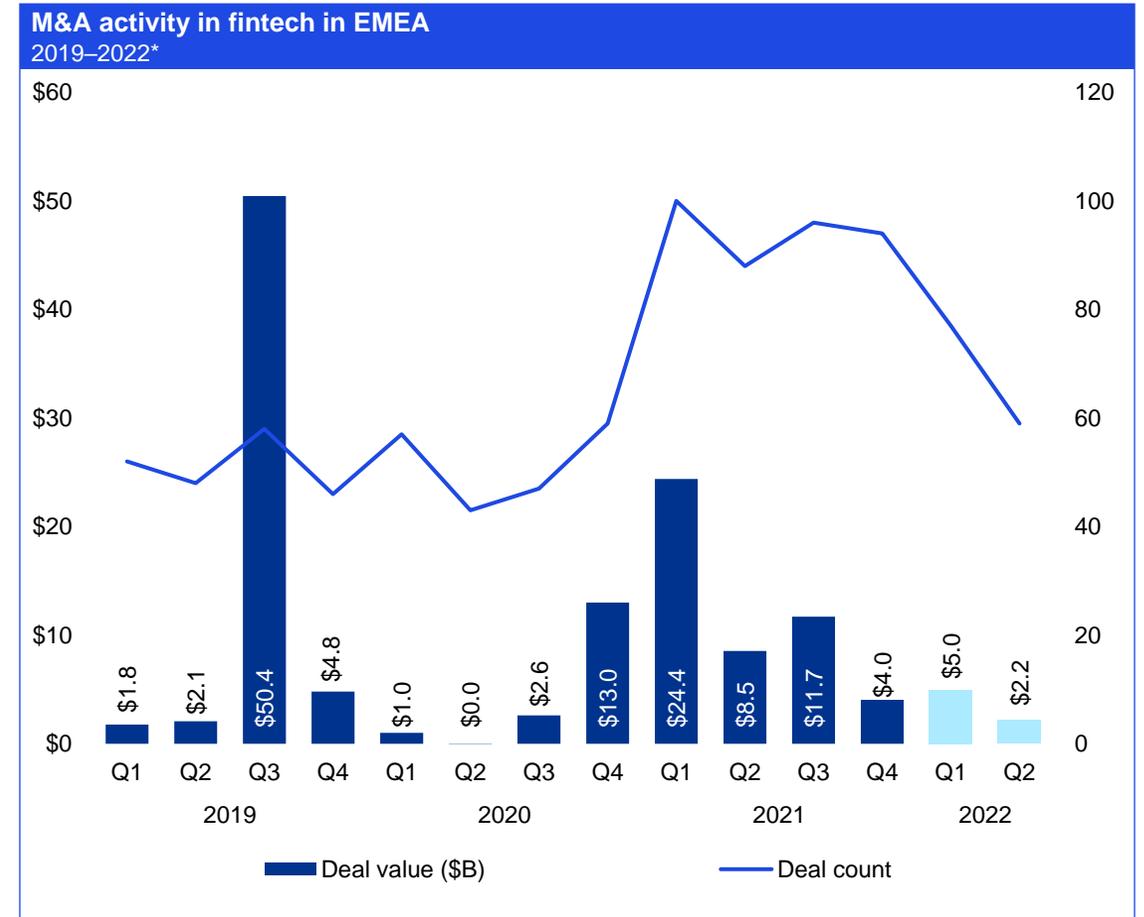
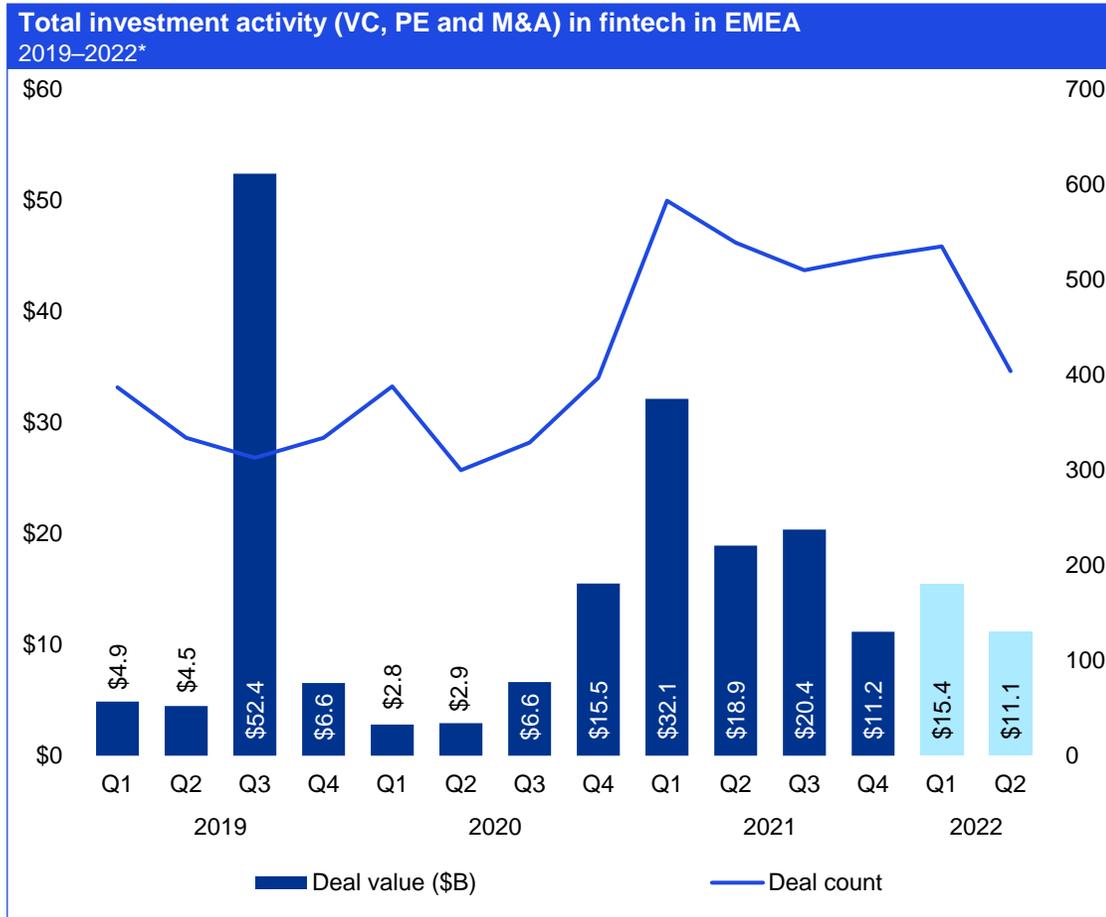


Corporate players remain integral in European venture funding conditions for fintechs, joining in a robust tally of deal value in associated rounds across a healthy volume as well. Likely thanks in part to that driver, as well as sustained demand for exposure to fintech innovation, pre-money valuations have yet to slide at all. Elevated levels of dry powder also support pricing conditions to some degree. It remains to be seen if growing economic pressures or the actualization of recession could finally deal a blow to the relatively resilient flow of VC, so the rest of the year could see trends shift more substantially. However, M&A dealmakers still seem willing to pay up considerable sums for targets.



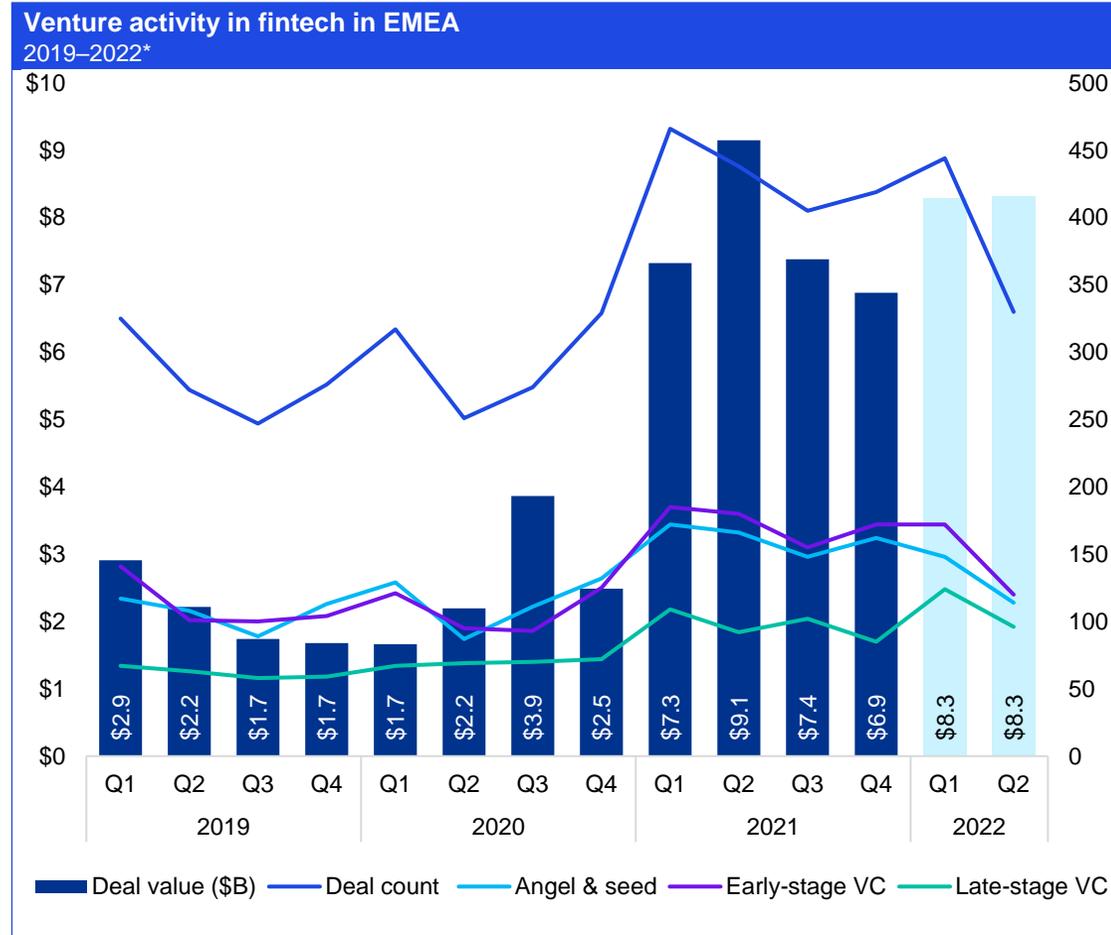
Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.
 Note: The median M&A size in 2022* is based on a population where n = 22.

M&A volume slides again, but it remains to be seen whether it could rebound

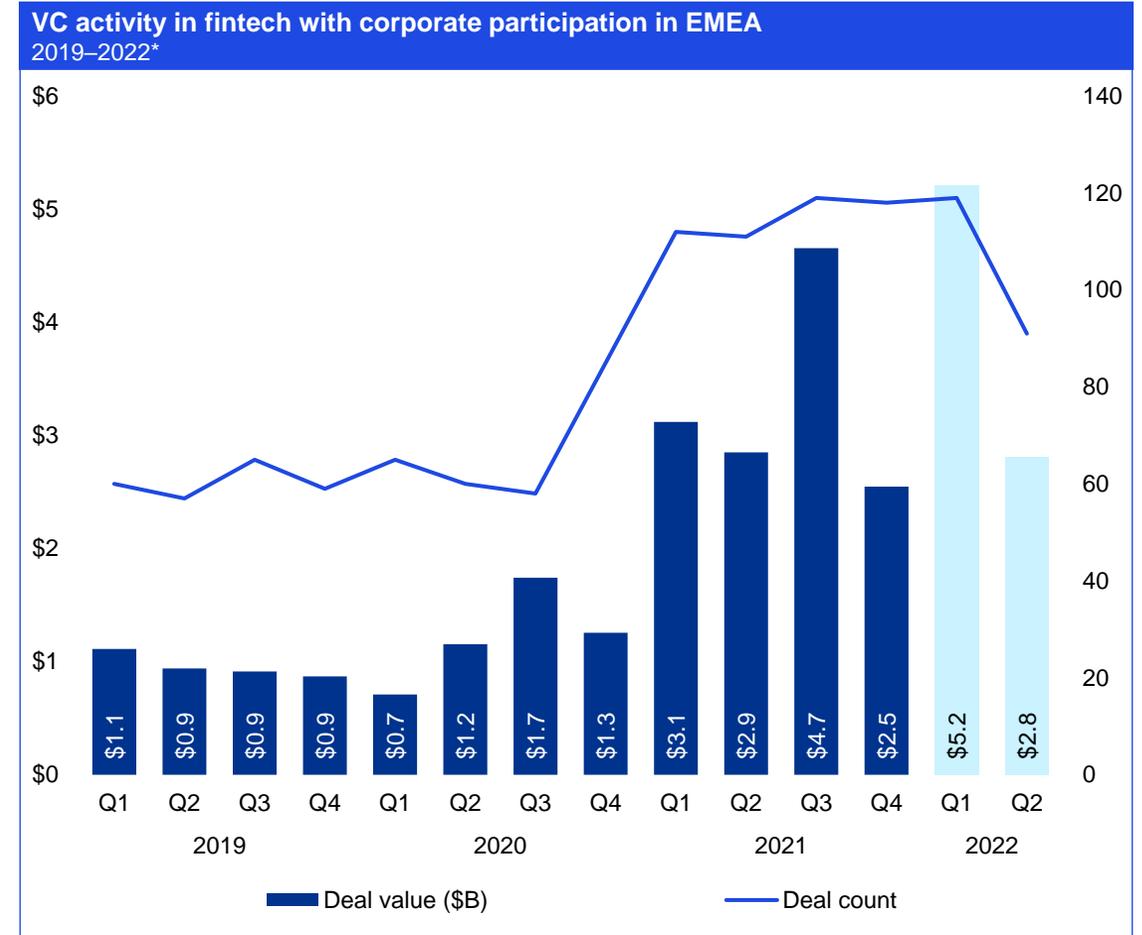


Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

VC activity stays strong even in volatile environment

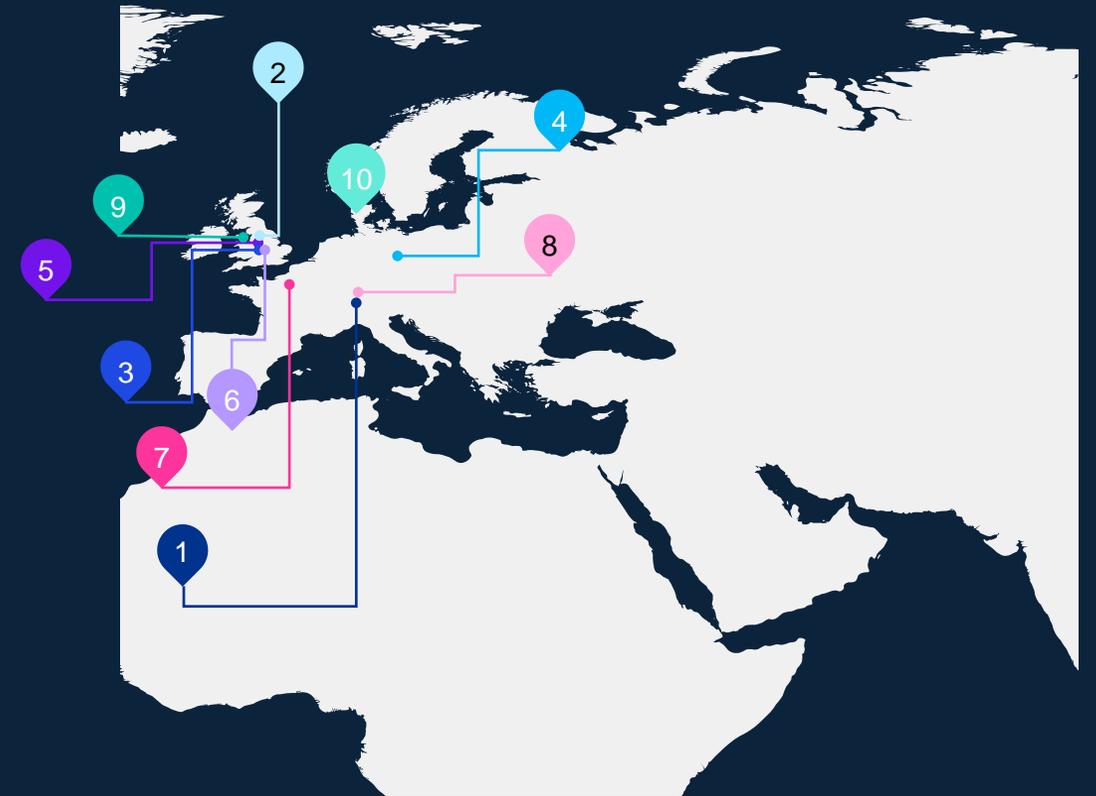


Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.



Top 10 fintech deals in EMEA in H1 2022

1. **Sia (Milan)** — \$3.9B, Milan, Italy — Payments — *M&A*
2. **Interactive Investor** — \$1.8B, Leeds, UK — Wealth/investment management — *M&A*
3. **FNZ** — \$1.4B, London, UK — Wealth/investment management — *PE growth*
4. **Trade Republic** — \$1.15B, Berlin, Germany — Capital markets — *Series C*
5. **Checkout.com** — \$1B, London, UK — Payments/transactions — *Series D*
6. **SumUp** — \$626.6M, London, UK — Payments/transactions — *Late-stage VC*
7. **Qonto** — \$549.8M, Paris, France — Banking — *Series D*
8. **Scalapay** — \$524M, Milan, Italy — Payments/transactions — *Series B*
9. **Market Financial Solutions** — \$398.05M, London, UK — Lending — *Late-stage VC*
10. **Lunar** — \$314.05M, Aarhus, Denmark — Payments/transactions — *Series D*



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

In H1 2022, fintech companies in Asia Pacific received \$41.8B with 607 deals

\$27.9 billion Afterpay acquisition propels fintech investment in Asia-Pacific to record high at mid-year

Fintech investment in the Asia-Pacific region hit an annual record high of \$41.8 billion with 6 months left in 2022, largely driven by Block's \$27.9 billion acquisition of Australia-based Afterpay. The region saw a diversity of jurisdictions attract good-sized deals during H1'22. In addition to the Afterpay acquisition, Australia saw the \$1 billion merger of Superhero and Swiftx, Japan saw the \$2.1 billion buyout of Yayoi by KKR, Singapore-based Coda Payments raised \$690 million, Indonesia-based Xendit raised \$300 million, and India-based fintechs Stashfin and Oxyzo raised \$270 million and \$237 million respectively. Fintech investment in China remained limited during H1'22; the largest fintech deal in the country was a \$140 million raise by corporate expense management company Fenbeitong. Key H1'22 highlights from the Asia-Pacific region include:

Hyped fintech subsectors starting to cool off

In the Asia-Pacific region, a number of fintech subsectors that attracted substantial interest and hype over the past 12 to 24 months cooled off considerably during H1'22, including retail payments, insurtech, and B2C solutions. Crypto, NFTs and blockchain also came off the investment burner as well.

New challenges, new priorities for investment

While investment in areas that saw significant interest during the height of the COVID-19 pandemic have lost some attractiveness, areas that align with rapidly evolving global issues — including rising inflation, increasing interest rates, geopolitical uncertainty, and supply chain woes — have continued to see investment. Key areas that garnered attention from investors in the Asia-Pacific region during H1'22 included supply chain management, cybersecurity and privacy, identity management, and governance

and compliance. Open data also saw solid investment during H1'22, in addition to infrastructure companies focused on the crypto space.

Modernization of financial systems continues to drive activity

In many parts of the Asia-Pacific region, particularly jurisdictions outside of China, the infrastructure underpinning existing financial markets is viewed as quite aged — from the technologies used directly by exchanges to different payments rails. This is driving a significant amount of investment towards the innovation of financial market infrastructure and to the digital last mile of transactions.

“ There were a couple of very big corporate M&A deals in the Asia-Pacific region during the first half of 2022, including Block's mega-acquisition of Afterpay and the merger of Superhero and Swiftx. Given the increasing pressure on valuations, we could see more M&A activity in H2'22 as corporates look for good opportunities to buy out their competitors in less mature markets and startups look to consolidate in order to gain market share and improve their profitability. ”

Andrew Huang
Partner
KPMG China

Digital transformation a government priority in China

In China, digital transformation continues to be a significant government priority. During H1'22, The People's Bank of China released its Fintech Development Plan (2022-2025), which stressed its commitment to appropriate regulation, privacy and data protection, low carbon and green fintech, and fair and inclusive financial services. While fintech investment in China was quite soft in H1'22, companies focused on infrastructure plays and partnerships with traditional financial institutions still gained attention from investors, while insurtechs focused on similar plays also began to attract interest.

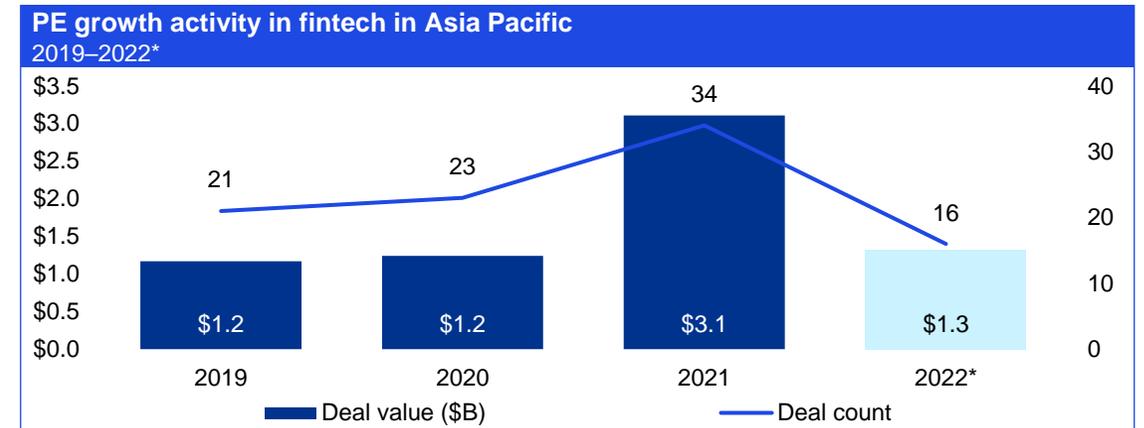
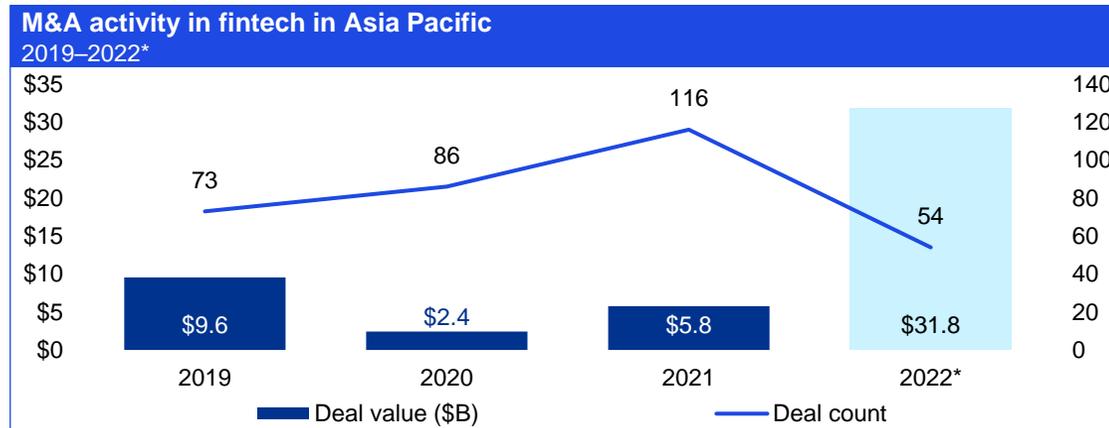
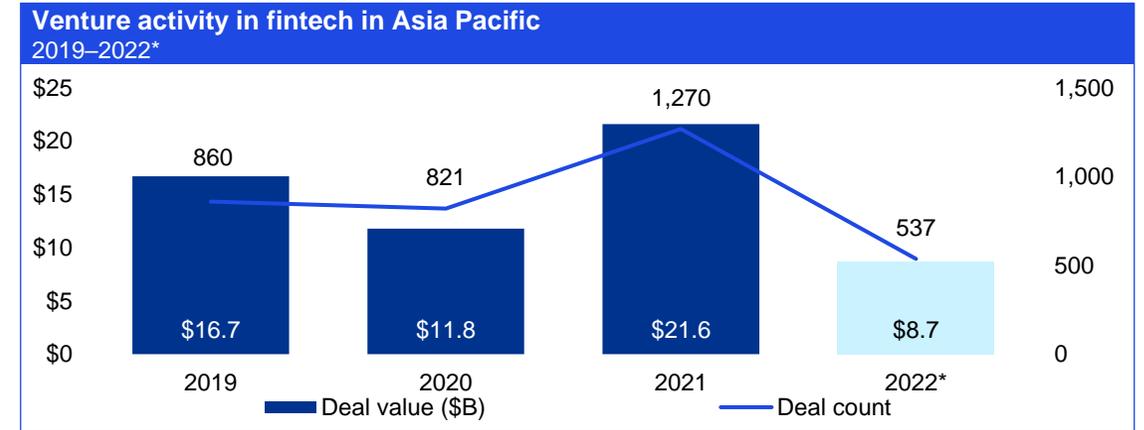
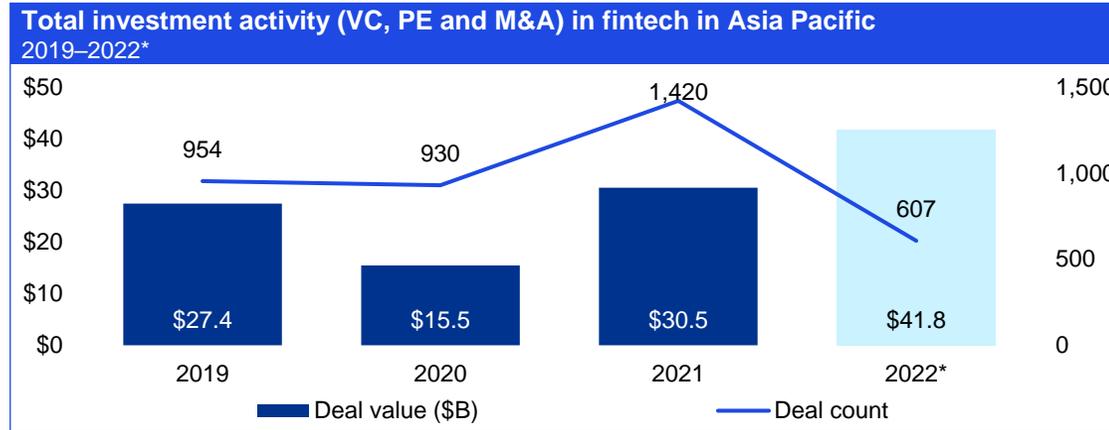
Trends to watch for in H2'22

- Regulators continuing to focus on making industry changes to support open banking and decentralized finance in an orderly and safe way.
- Investors taking a more focused approach to their investments, prioritizing investments in companies with very strong business models and distinctive value propositions.
- Growing focus on B2B solutions and tech enablement of traditional players, rather than standalone fintech plays — particularly in China.
- Challenger banks continuing to grow, although at a relatively slow pace.

“ In the Asia-Pacific region, there's been a big focus on modernization, so it's not surprising that we're still seeing a good number of investments focused on digital modernization and infrastructure. Areas like green finance, cybersecurity, and B2B solutions are also expected to remain attractive to investors in the region. But while these areas might show some resilience as we likely head into a global recession, other fintech subsectors could take a big hit — including retail focused crypto and B2C focused fintech. ”

Anton Ruddenklau
Global Fintech Leader,
Partner and Head of Financial
Services Advisory
KPMG in Singapore

A blockbuster transaction and healthy volume combine for a massive tally by midyear

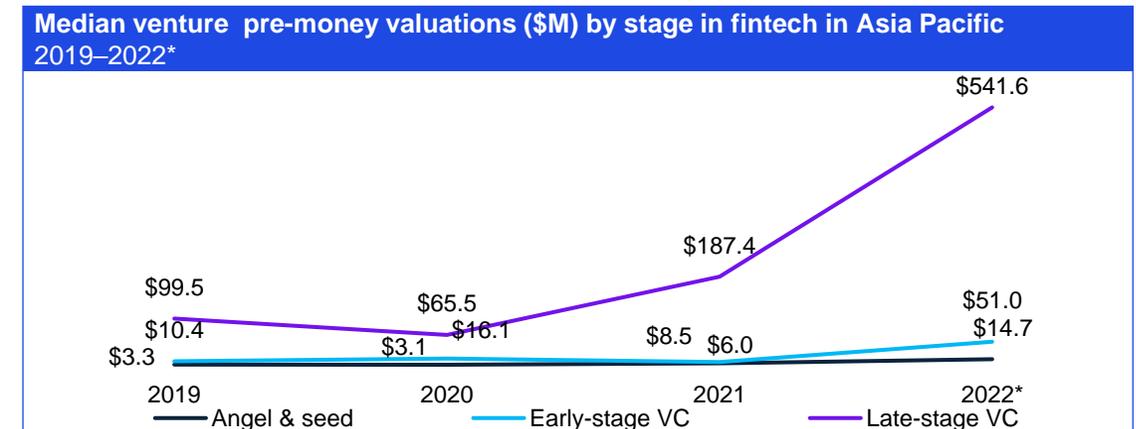
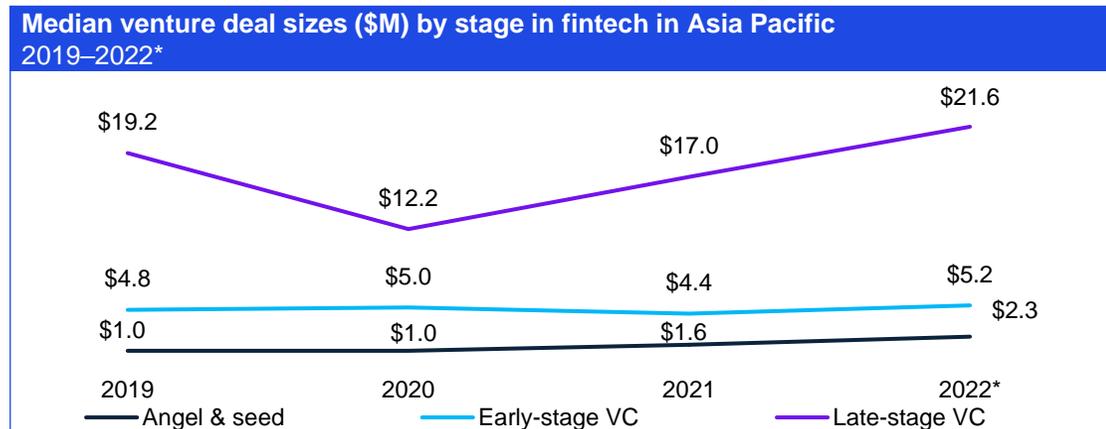


Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Valuations remain undaunted

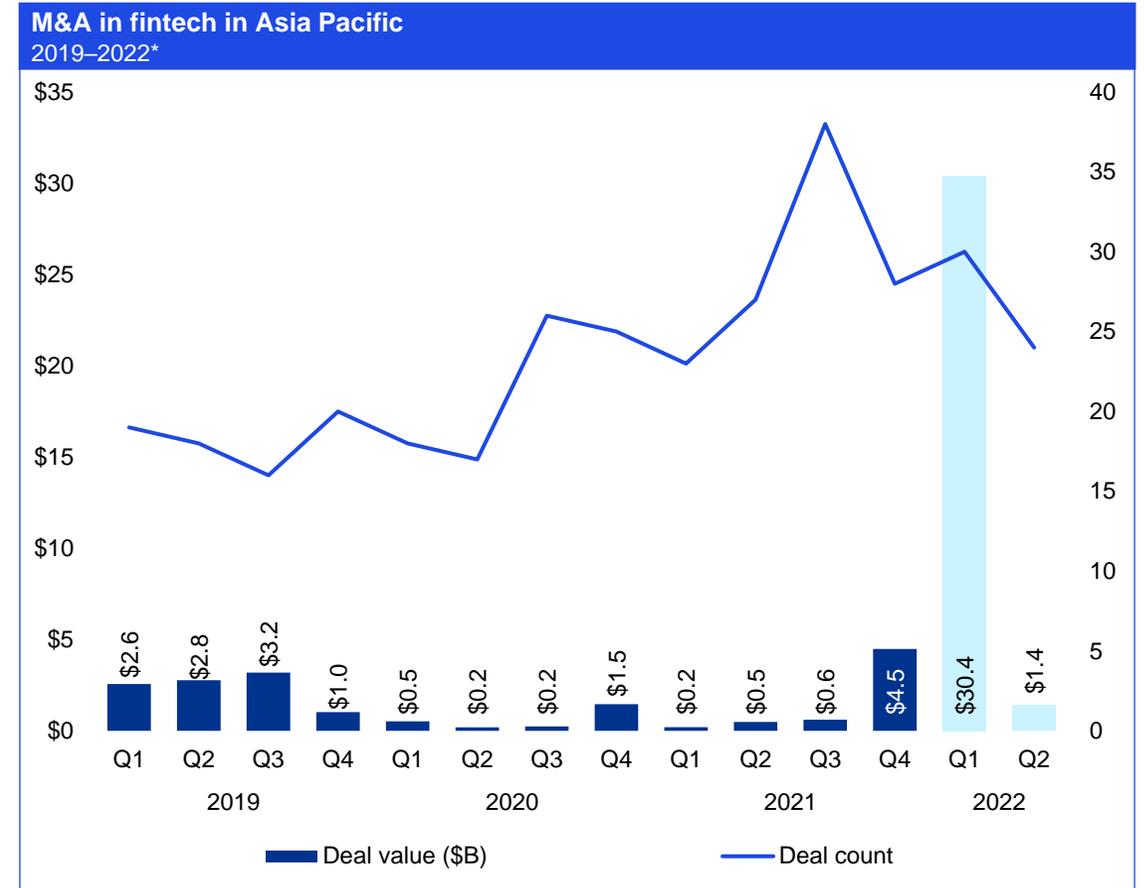
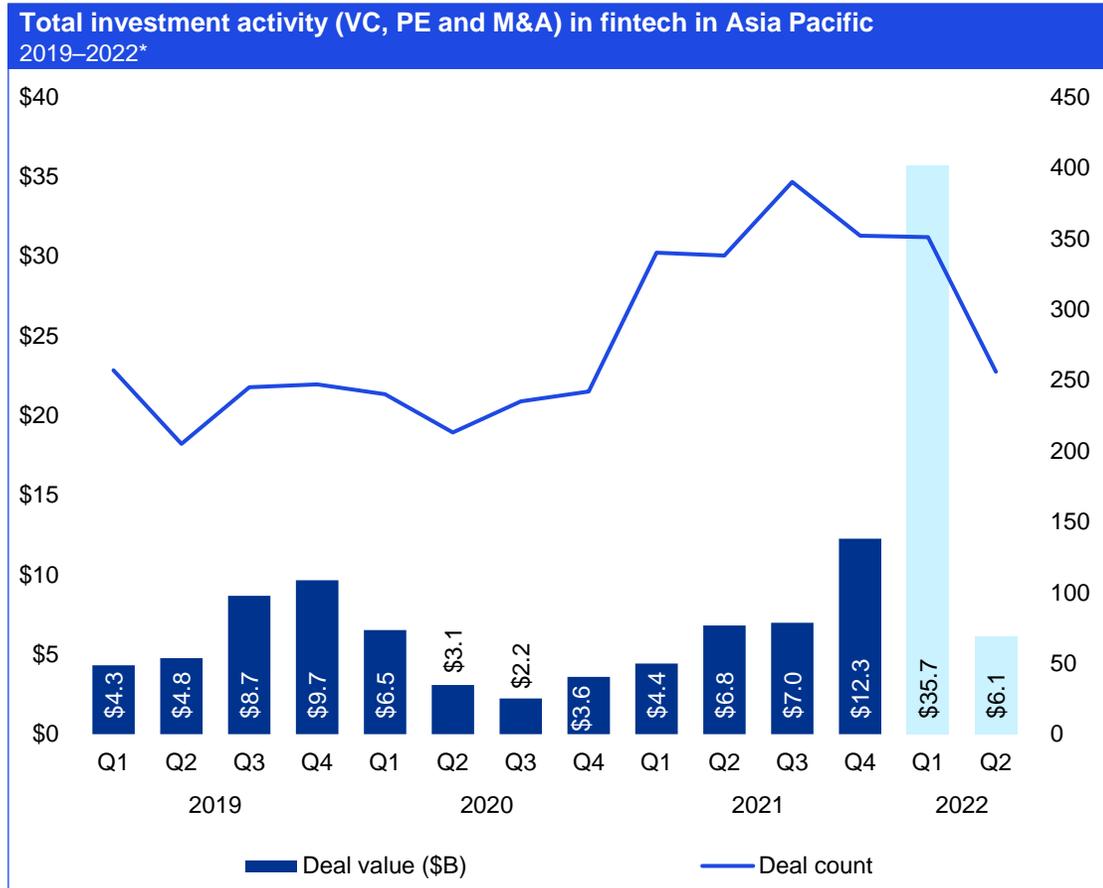


Even relative to the headier conditions seen in 2019 through 2021, the late-stage venture valuation in the Asia-Pacific region has surged to a remarkable tally. Outliers definitely skewed this metric, as can be seen in the top fintech financings for the region later in this report edition. However, it also speaks to the demand for exposure for the major fintech players that have successfully navigated growing political tensions and challenging economic conditions. As the region recovered from the pandemic, some national economies have relatively more bullish prospects than others, which has likely also encouraged investors to invest more. Corporates still play a key role in supporting these financing metrics, as well.



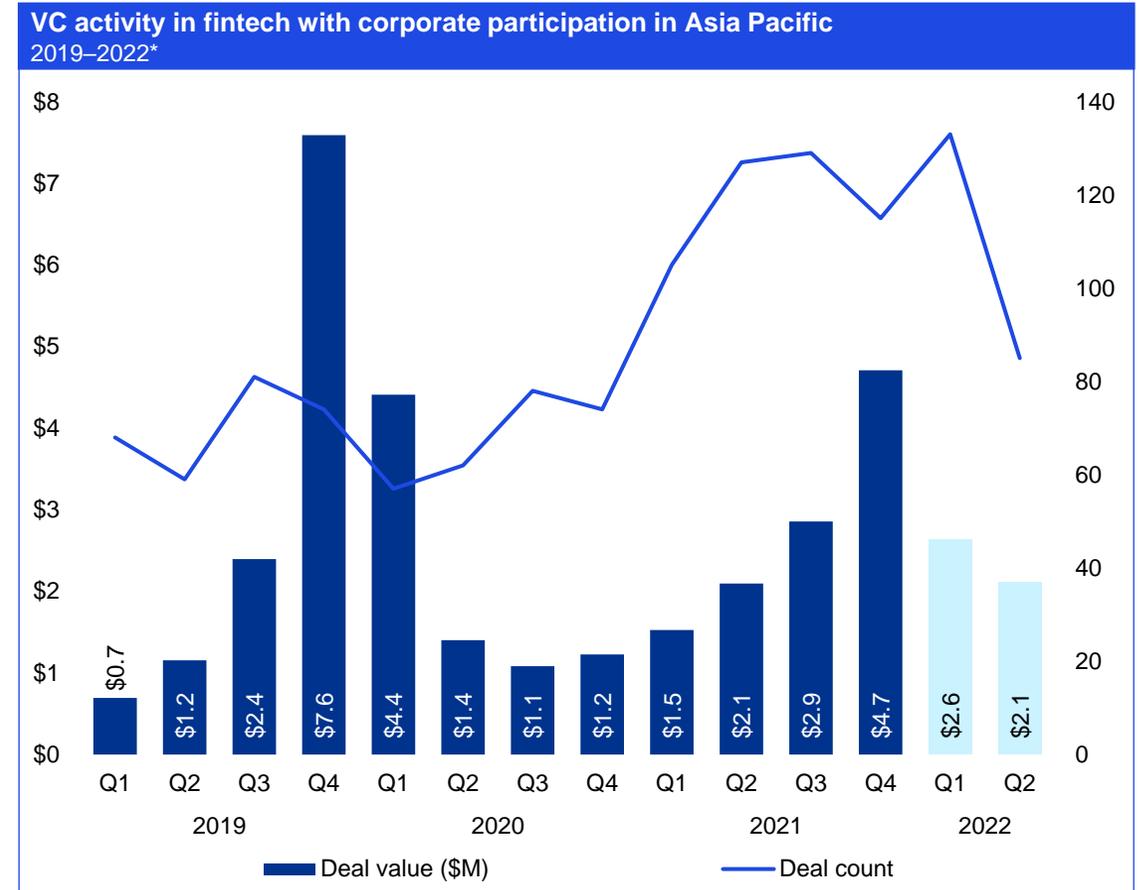
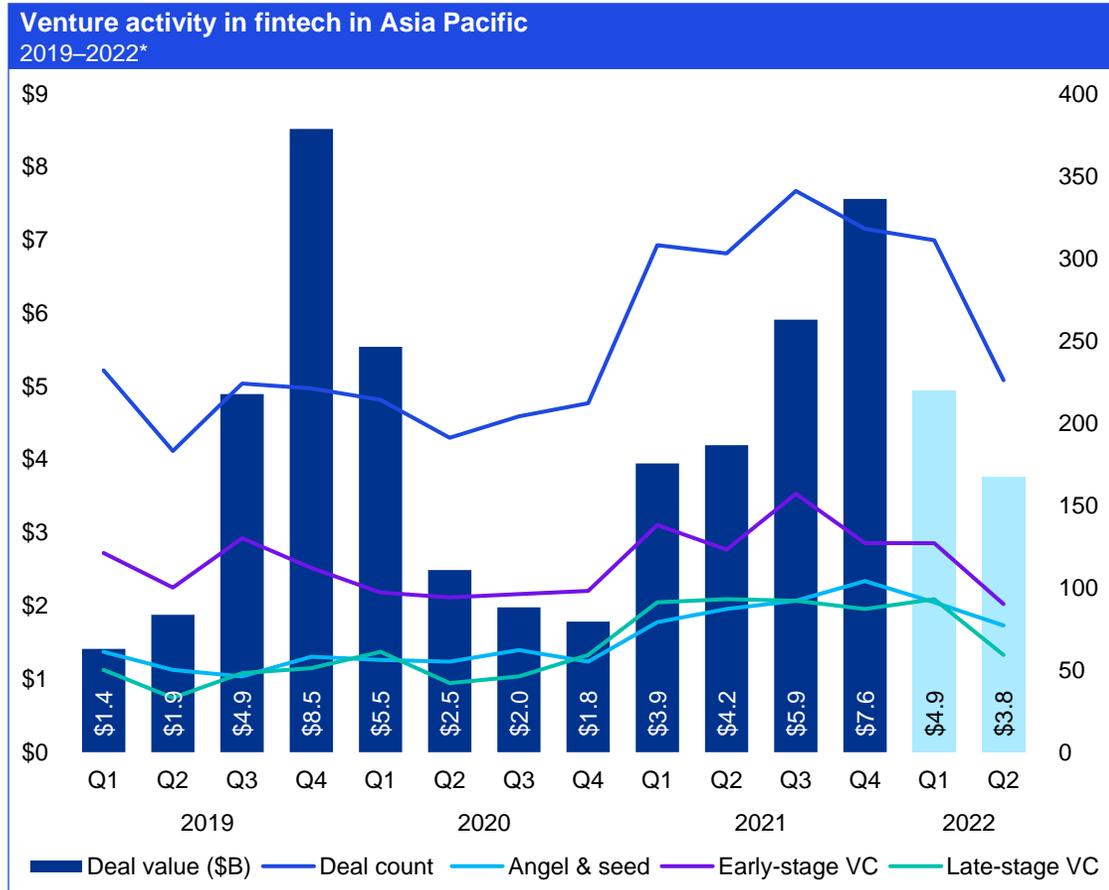
Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.
 Source: The H1 2022 angel & seed median pre-money valuation figure is based on a non-normative sample size.

A blockbuster outlier deal pushes M&A value to a single-quarter high



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

VC financing activity declines somewhat



Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

Top 10 fintech deals in Asia Pacific in H1 2022



1. **Afterpay** — \$27.9B, Melbourne, Australia — Payments — *M&A*
2. **Yayoi** — \$2.1B, Tokyo, Japan — Institutional/B2B — *Corporate divestiture*
3. **Superhero** — \$1.06B, Sydney, Australia — Wealth/investment management — *M&A*
4. **Coda Payments** — \$690M, Sydney, Australia — Payments/transactions — *Recapitalization/growth*
5. **Xendit** — \$300M, Jakarta, Indonesia — Payments/transactions — *Series D*
6. **Funding Societies** — \$294M, Singapore — Lending — *Series C*
7. **Stashfin** — \$270M, Delhi, India — Lending — *Series C*
8. **Oxyzo** — \$237.1M, Gurgaon, India — Lending — *Series A*
9. **Slice** — \$220M, Bengaluru, India — Payments/transactions — *Series B*
10. **Voyager Innovations** — \$210M, Mandaluyong City, Philippines — Payments/transactions — *PE growth*

Source: Pulse of Fintech H1'22, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2022.

KPMG's Global Fintech practice

The financial services industry is transforming with the emergence of innovative new products, channels and business models. This wave of change is driven primarily by evolving customer expectations, digitalization as well as continued regulatory and cost pressures.

KPMG firms are passionate about supporting clients to successfully navigate this transformation, mitigating the threats and capitalizing on the opportunities.

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

Visit home.kpmg/fintech



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- **Courtney Trimble**, Global Head of Payments, Principal, Financial Services, KPMG in the US
- **Gonçalo Traquina**, Partner, Advisory KPMG in the Lower Gulf region

Methodology

The underlying data and analysis for this report (the “Dataset”) was provided by PitchBook Data, Inc (“PitchBook”) on 7 July 2021 and utilizes their research and classification methodology for transactions as outlined on their website at <https://help.pitchbook.com/s/>. The Dataset used for this report considers the following investment transactions types: Venture Capital (including corporate venture capital) (“VC”), private equity (“PE”) Investment and Mergers and Acquisitions (“M&A”) for the FinTech vertical within the underlying PitchBook data. Family and friends, incubator and accelerator type funding rounds are excluded from the Dataset.

Due to the private nature of many of the transactions, the Dataset cannot be definitive, but is an estimate based on industry leading practice research methodology and information available to PitchBook at 7 July 2021. Similarly, due to ongoing updates to PitchBook’s data as additional information comes to light, data extracted before or after that date may differ from the data within the Dataset.

Only completed transactions regardless of type are included in the Dataset, with deal values for general M&A transactions as well as venture rounds remaining un-estimated if this information is not available or reliably estimated.

Venture capital deals

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

Angel/seed: PitchBook defines financings as angel rounds if there are no PE or VC firms involved in the company to date and it cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when

the investors and/or press release state that a round is a seed financing, or it is for less than \$500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage VC: 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 VC: 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.

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

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

Private equity investments

PitchBook includes both buyout investors, being those that specialize in purchasing mainly a controlling interest of an established company (in a leveraged buyout) and growth/expansion investors, being those that focus on investing in minority stakes in already established businesses to fund growth. Transaction types include: leveraged buyout (“LBO”); management buyout; management buy-In; add-on acquisitions aligned to existing investments; secondary buyout; public to private; privatization; corporate divestitures; and growth/expansion.

Methodology (cont'd)

M&A transactions

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

The fintech vertical

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. PitchBook defines the FinTech vertical as “Companies using new technologies including the internet, blockchain, software and algorithms to offer or facilitate financial services usually offered by traditional banks including loans, payments, wealth or investment management, as well as software providers automating financial processes or addressing core business needs of financial firms. Includes makers of ATM machines, electronic trading portals and point-of-sale software.” Within this report, we have defined a number of Fintech sub-verticals:

1. **Payments/transactions** — companies whose business model revolves around using technology to provide the transfer of value as a service including both B2B and B2C transfers.
2. **Blockchain/cryptocurrency** — companies whose core business is predicated on distributed ledger (blockchain) technology with the financial services industry AND/OR relating to any use case of cryptocurrency (e.g. Bitcoin). This vertical includes companies providing services or developing technology related to the exchange of cryptocurrency, the storage of cryptocurrency, the facilitation of payments using cryptocurrency and securing cryptocurrency ledgers via mining activities.
3. **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.
4. **PropTech** — companies that are classified as both fintech AND also who are developing and leveraging technology intended to help facilitate the purchase, management, maintenance and investment into both residential and commercial real estate. This includes sub-sectors such as property management software, IoT home devices, property listing and rental services, mortgage and lending applications, data analysis tools, virtual reality modeling software, augmented reality design applications, marketplaces, mortgage technology and crowdfunding websites.
5. **Insurtech** — companies utilizing technology to increase the speed, efficiency, accuracy and convenience of processes across the insurance value chain. This includes quote comparison websites, insurance telematics, insurance domotics (home automation), peer-to-peer insurance, corporate platforms, online brokers, cyber insurance, underwriting software, claims software and digital sales enabling.
6. **Wealthtech** — companies or platforms whose primary business involves the offering of wealth 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.
7. **Regtech** — companies that provide a technology-driven service to facilitate and streamline compliance with regulations and reporting as well as protect from employee and customer fraud.



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