Pulse of Fintech H1 2020

September 2020

home.kpmg/fintechpulse

Welcome message

Welcome to the H1'20 edition of Pulse of Fintech, a biannual report showcasing major activities and trends within the fintech market globally and in key regions around the world.

H1'20 was unlike any time period ever seen before. The rapid emergence of COVID-19 was a major black swan event, sending ripples throughout public markets and driving changes in customer and business behaviors on an unprecedented scale. Given the pandemic, it's no surprise that deals activity ground almost to a halt, with many of the completed deals in H1'20 hangover from 2019.

Fintech investments during H1'20 put a spotlight on long-term trends, including the growing importance of APIs and open data and the blurring of lines between fintech, big tech and platform providers. They also highlighted the acceleration of digital trends, such as the use of digital payments and importance of digital business models.

Looking forward, uncertainty is expected to linger through the remainder of the year. Payments will likely continue to be a very hot and competitive sector for fintech investment, while regtech could grow on the radar of investors as corporates look to better manage risk.

The increasing use of digital financial services models will likely also spur investments in ancillary areas, such as fraud prevention, digital identity management and cybersecurity.

We discuss these trends and other issues in this edition of the Pulse of Fintech. We also address a number of key questions relating to the fintech market today, including:

— How could regulation enhance cryptocurrency investment?

— Why is payments such a hot ticket for VC investors globally?

— How is the wealthtech sector evolving to become more digital?

— Why could regtech see increasing investment?

We hope you find this edition of the Pulse of Fintech insightful. If you would like to discuss any of the information contained in this report further, contact us or a KPMG local advisor.

Not for distribution in the USA.

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.

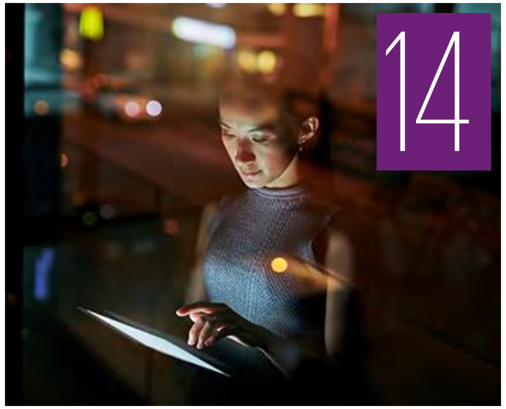
Ian Pollari
Global Co-Leader of Fintech,
KPMG International,
Partner and National-Sector Leader, Banking,
KPMG Australia

Anton Ruddenklau
Global Co-Leader of Fintech,
KPMG International,
Partner and Head of Digital & Innovation, Financial Services,
KPMG in the UK

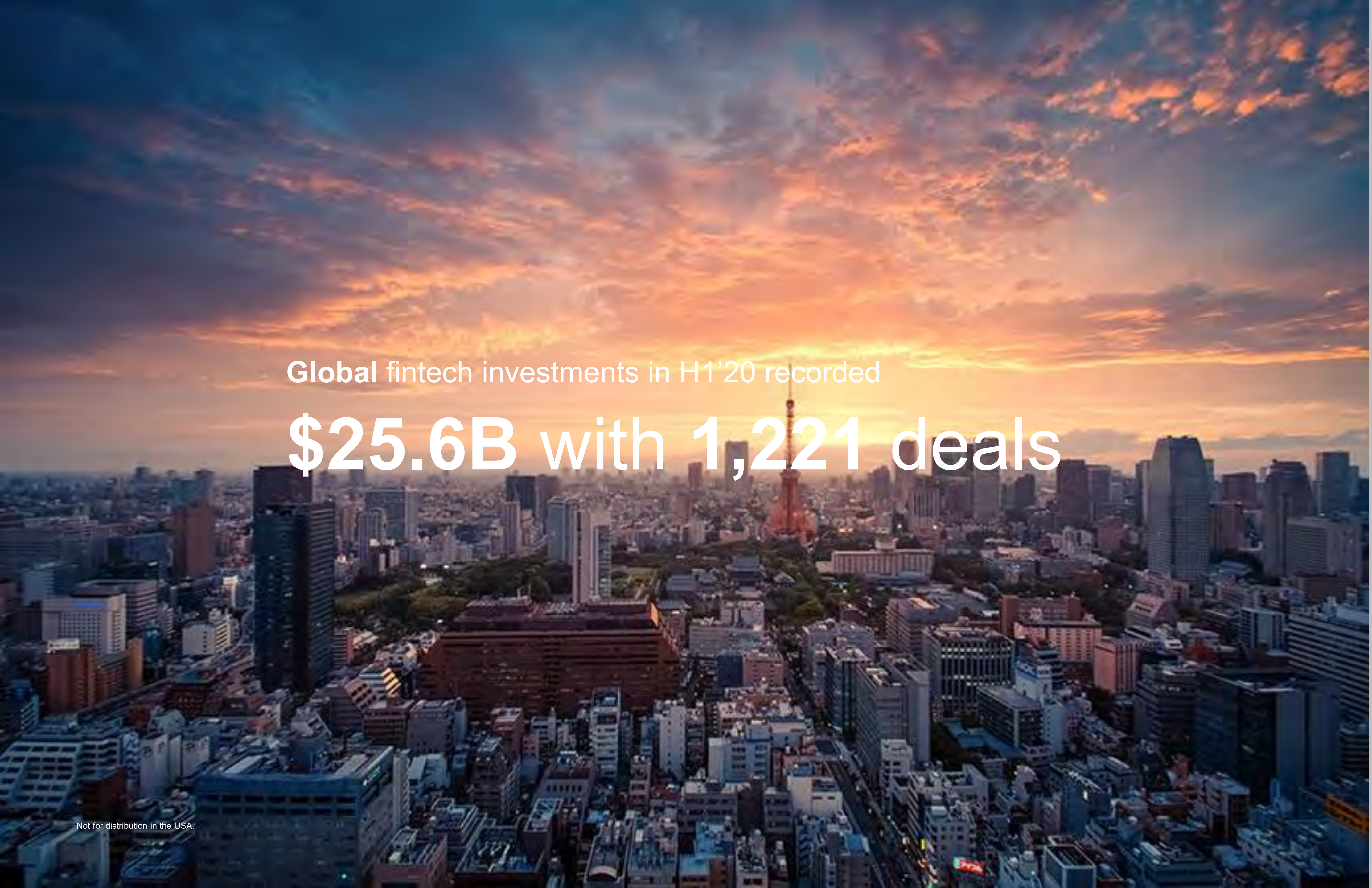
All currency amounts are in US$ unless otherwise specified. Data provided by PitchBook unless otherwise specified.

#fintechpulse

Contents



Not for distribution in the USA.



Global fintech investments in H1'20 recorded

$25.6B with 1,221 deals

Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights

#fintechpulse

Lack of mega M&A activity brings global fintech investment down — VC remains strong

At mid-year, global fintech investment across M&A, PE and VC was US$25.6 billion globally. The lack of mega-M&A deals, such as 2019's acquisition of WorldPay by FIS for US$42.5 billion, was the key driver of the decline. Global VC investment in fintech remained robust, accounting for US$20 billion globally.

Despite COVID-19, strategic deals getting done

It is undeniable that COVID-19 had an impact on fintech deal activity in H1'20. New deals activity ground almost to a halt, with many of the completed deals in H1'20 reflecting long lead times and carryover activity from 2019. Many of the completed strategic deals also highlight fintech trends unaffected by the pandemic.

For example, Visa's pending acquisition ofPlaid for US$5.3 billion recognizes the growing importance of open data and API enablement in financial services. Dominant payment providers will continue to acquire fintech capabilities they can then provide to banks and other financial institutions. Payments and lending remained the most strategic areas of investment, accounting for large deals in Asia (i.e., Gojek, Pine Labs), the Americas (i.e., Stripe, Chime, AvidXchange) and Europe (i.e., Revolut).

> "We continue to see strategic deal activity and as COVID-19 has highlighted, digitization efforts are becoming a critical imperative. This also reflects the reality that building (internally) generally takes a longer time and, hence, strategic M&A and investments can play an important role to respond more quickly."

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

Growth-stage companies driving widespread fintech investment

As startups set their sights on growth, they are attracting significant attention and funding, not only domestically, but from global investors and corporates looking to gain market share and access.

During H1'20, Australia-based Airwallex and Judo Bank raised US$160 million in VC investment and US$146.6 million from PE investors respectively, while Japan-based Paidy raised US$251 million, Sweden-based Klarna raised US$200 million and Brazil-based Nubank raised US$300 million. France and the Philippines also saw US$100 million+ fintech deals in H1'20.

Governments focusing on next steps of fintech evolution

During H1'20, a number of governments made big moves to push their fintech agendas forward. In its 2020 Budget, the UK announced a strategic fintech sector review to explore how the government can support fintech growth and competitiveness[1].

In March, Australia re-opened submissions to its Select Committee on Financial Technology and Regulatory Technology to better understand how COVID-19 has affected the sector and identify supports that can be rapidly deployed[2]. Meanwhile, Hong Kong (SAR) introduced an 'opt-in' licensing program for Digital Asset Exchanges, and Singapore also introduced a licensing program for Digital Asset Exchange and platforms.

[1] https://www.cityam.com/budget-2020-government-to-issue-uk-fintech-sector-review
[2] https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Financial_Technology_and_Regulatory_Technology/FinancialRegulatoryTech

#fintechpulse

Big techs and platform companies blurring the lines of fintech

Big techs and platform providers remained active in the fintech space in H1'20 in a bid to extend their market reach and customer value propositions. Indonesia-based ride-hailing platform Gojek, which also has a digital-payments offering, raised US$3 billion in H1'20 from investors including Google, Tencent, Facebook and PayPal[3]. Both Gojek and its rival Grab also made their own fintech investments. Gojek acquired Philippines-based payments company Moka in April, while Grab acquired Singapore-based robo-advisor Bento in January. The intermingling of big tech, platforms and fintech is only expected to grow as companies on all sides work to extend their reach and value.

Corporates doubling down on fintech investment due to COVID-19

COVID-19 has significantly accelerated digital trends. The rapid demand for and use of digital platforms, digital banking, no-touch payments and other fintech-related services in every region of the world is driving many financial services companies to double down on their fintech investments.

Financial institutions that have been lackadaisical about fintech to-date are recognizing that the industry dislocation caused by COVID-19 will have long-term implications and are, therefore, quickly increasing their investments.

Trends to watch for globally

COVID-19 will likely remain an active driver for fintech investment heading into H2'20. Regtech companies could gain traction, particularly those focused on credit-related solutions.

Data analytics for financial services will become critical as financial institutions look to gain access to alternative sources of data to enrich their understanding of customers and their risk exposures.

The ongoing acceleration of digital trends will drive investment not only in direct fintech solutions, but in all of the enabling technologies, such as cybersecurity, fraud prevention and digital identity management.

> "Fintech investors are focused on big bets and safer deals right now. This is making it difficult for smaller fintechs, even those with good business models, to raise funding. Some of them won't have the liquidity they need to make it through the current crisis. Heading into H2'20, we will likely see more consolidation and more opportunistic investments."

Anton Ruddenklau
Global Co-Leader of Fintech, KPMG International,
Head of Digital Innovation, Financial Services, KPMG in the UK

[3] https://www.pymnts.com/news/investment-tracker/2020/paypal-facebook-invest-expand-with-gojek-in-southeast-asia

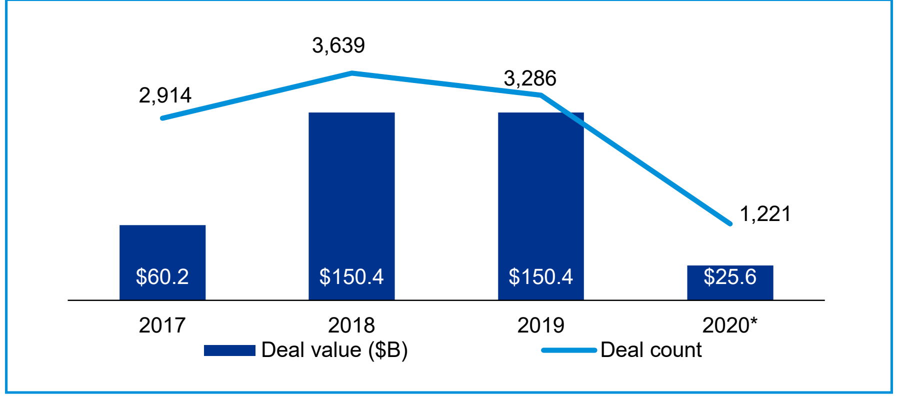
Not for distribution in the USA.

#fintechpulse

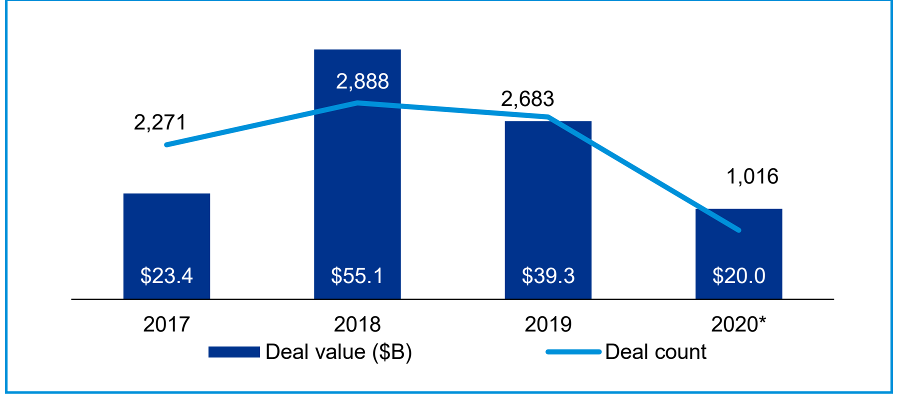
Global insights

After mega-years, fintech cools down

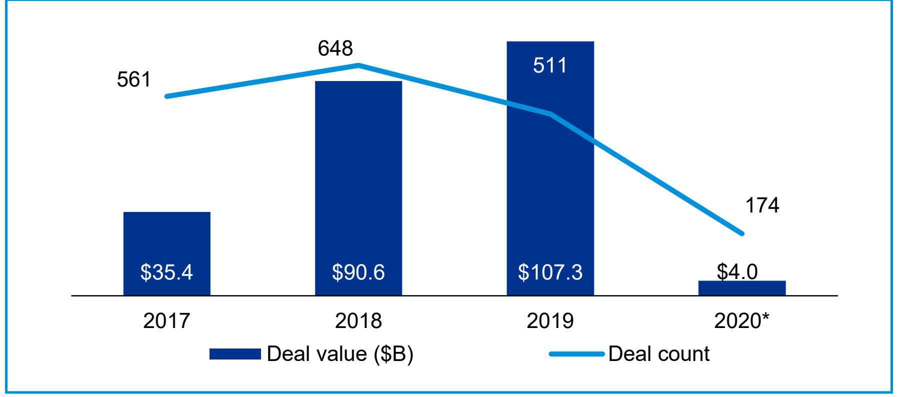
Total global investment activity (VC, PE and M&A) in fintech
2017–2020*



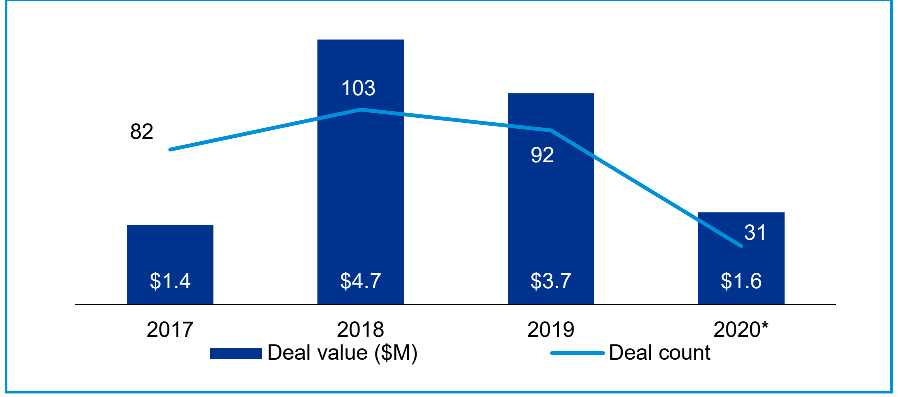
Global venture activity in fintech
2017–2020*



Global M&A activity in fintech
2017–2020*



Global PE growth activity in fintech
2017–2020*

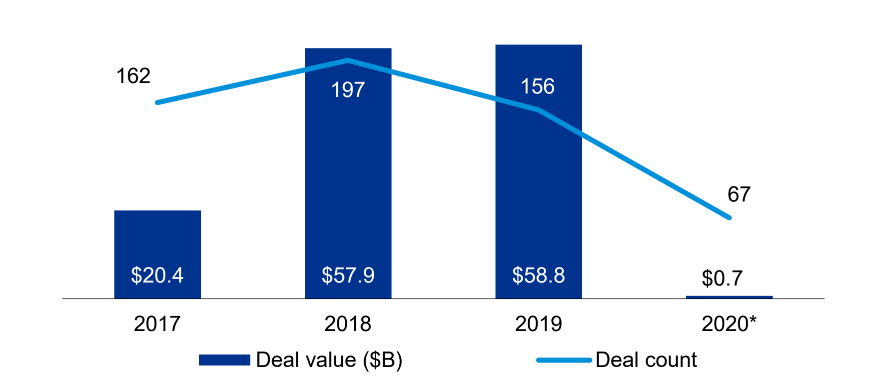


Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

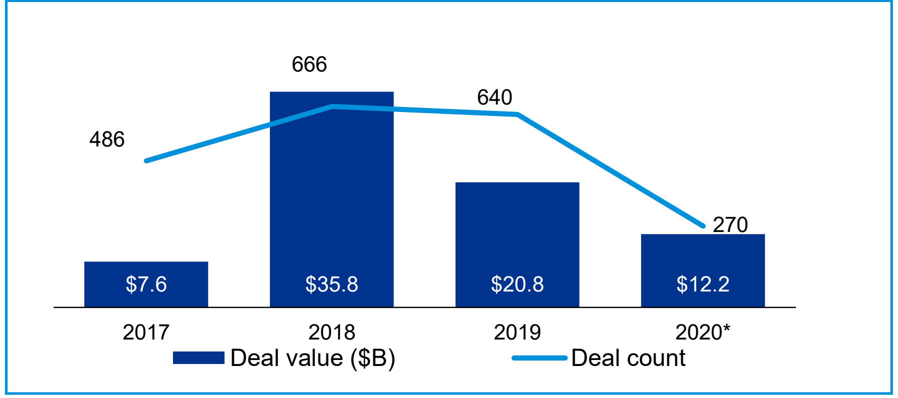
Not for distribution in the USA.

Cross-border buyers press pause

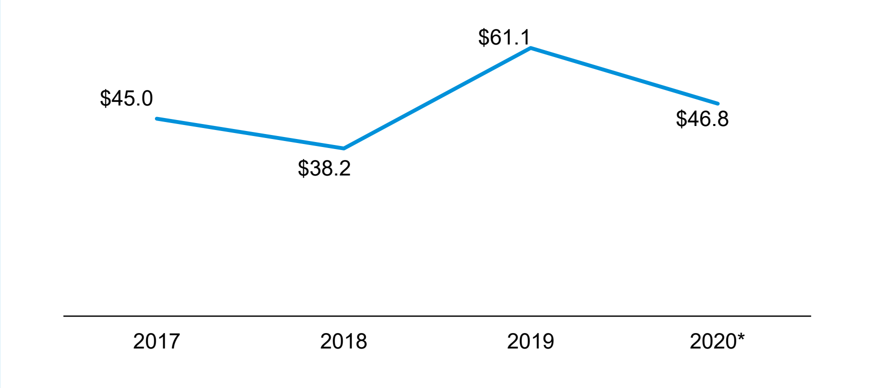
Global cross-border M&A activity in fintech
2017–2020*



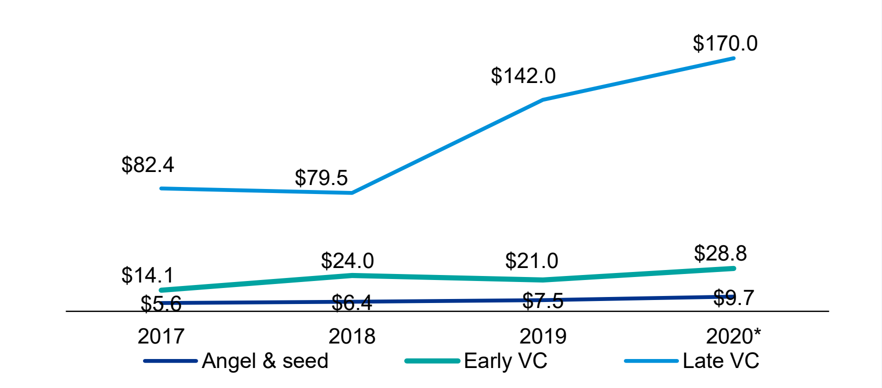
Global VC activity in fintech with corporate participation
2017–2020*



Global median M&A size ($M) in fintech
2017–2020*



Global median pre-money valuations ($M) by stage in fintech
2017–2020*



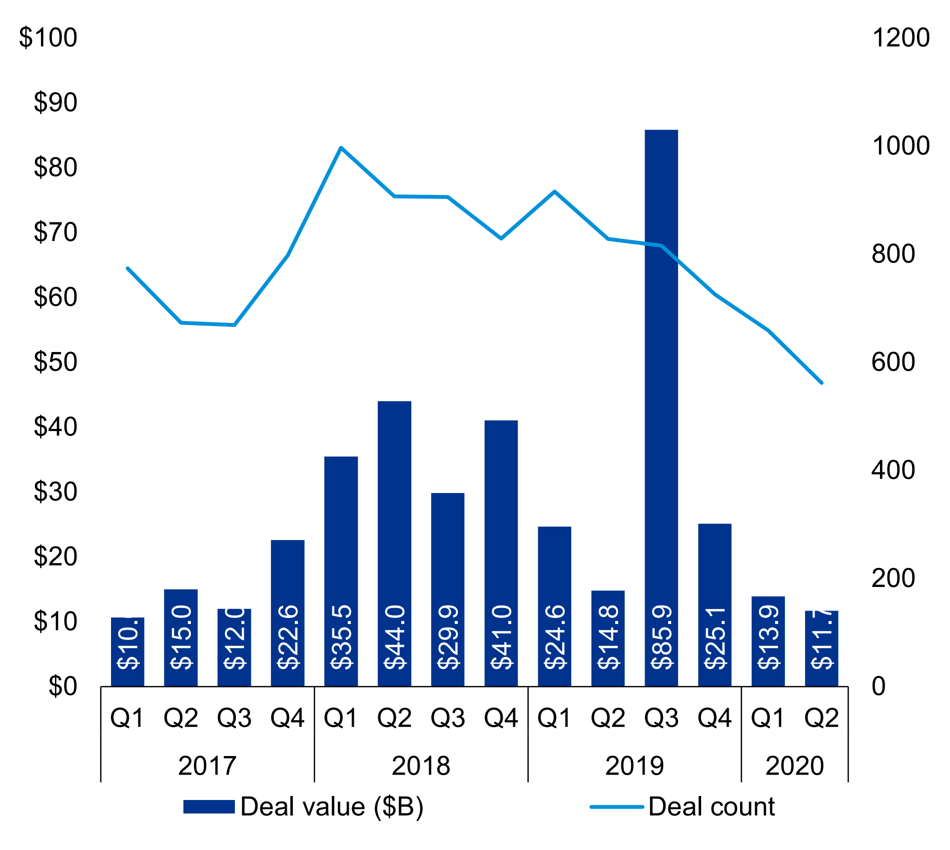
Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

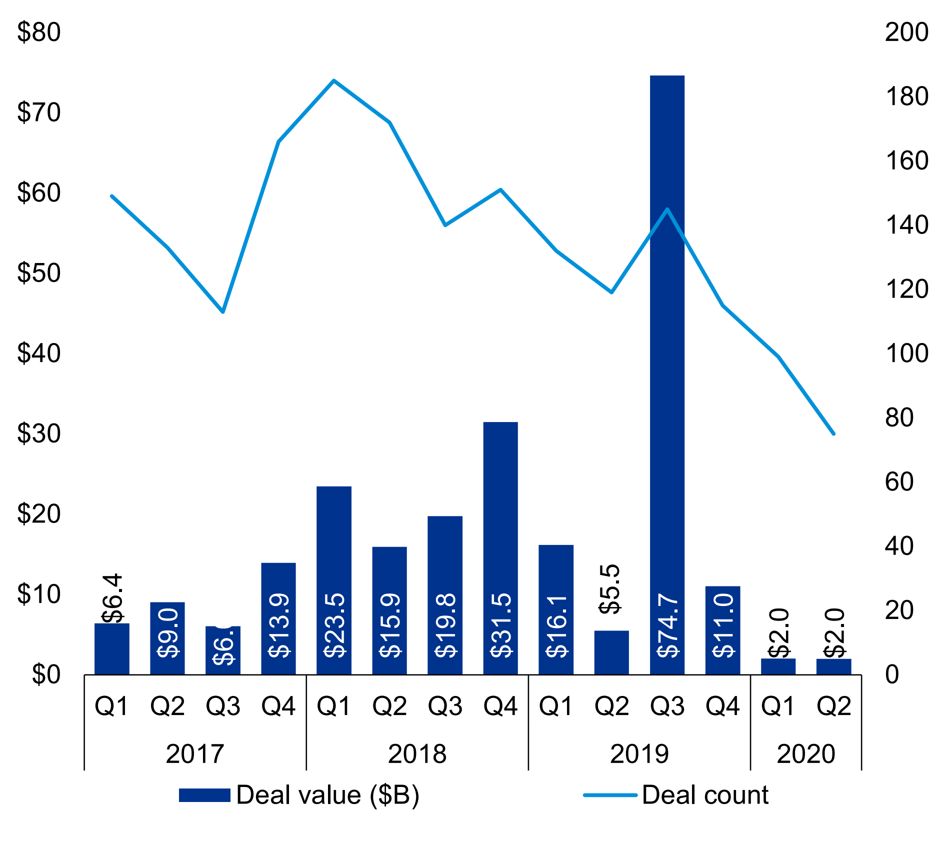
Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Volume declines overall amid global pressures

Total global investment activity (VC, PE and M&A) in fintech
2017–Q2 2020



Global M&A activity in fintech
2017–Q2 2020

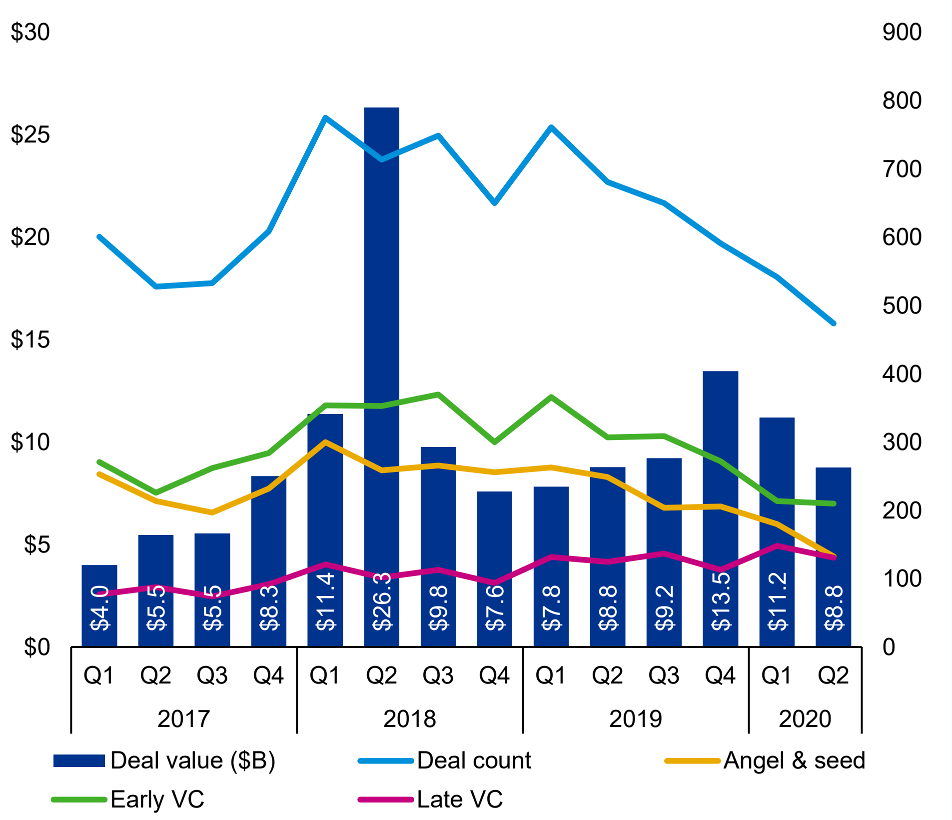


Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

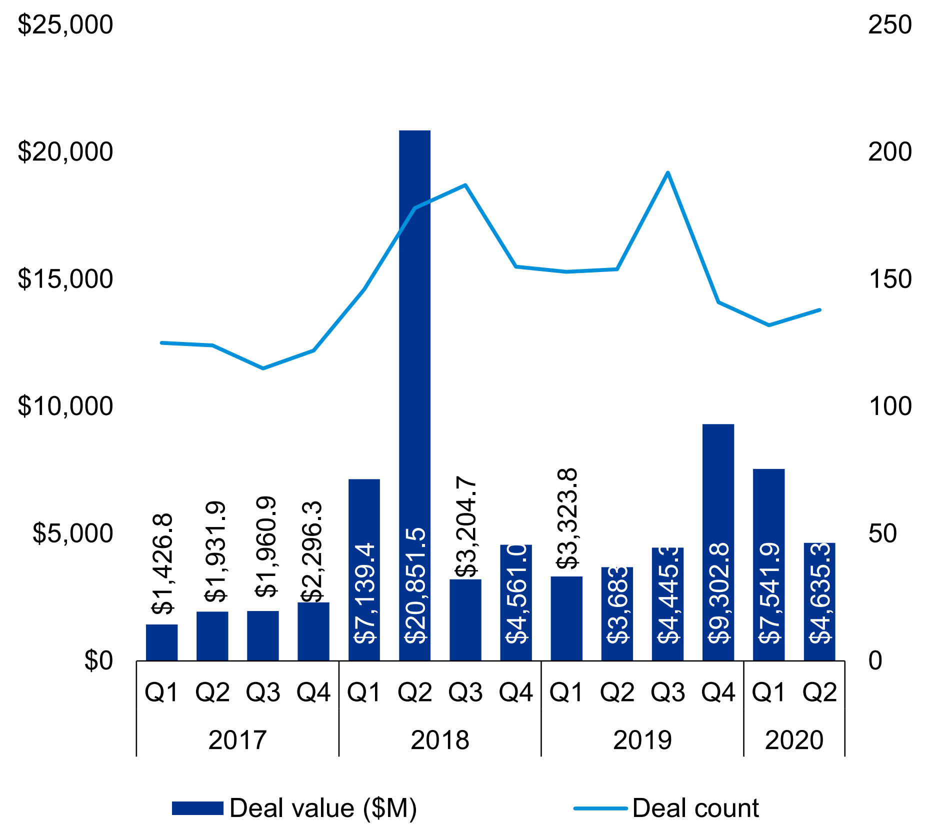
Not for distribution in the USA.

Corporates still boost overall venture funding

Global venture activity in fintech
2017–Q2 2020



Global VC activity in fintech with corporate participation
2017–Q2 2020



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

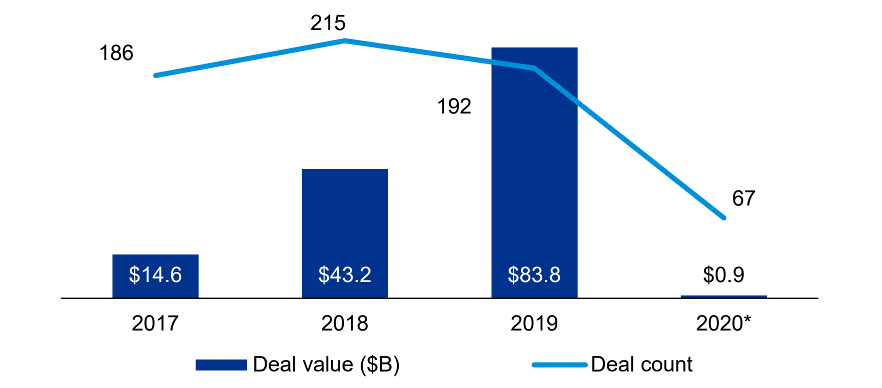
Global insights

Top 10 global fintech deals in the H1 2020

1. **Gojek** — $3B, Jakarta, Indonesia — Payments/transactions — *Series F*
2. **Open Lending** — $1.3B, Austin, US — Lending — *M&A*
3. **Grab** — $886M, Singapore — Payments/transactions — *Late-stage VC***
4. **Stripe** — $850M, San Francisco, US — Institutional/B2B — *Late-stage VC*
5. **RDC** — $700M, King of Prussia, US — Regtech — *M&A*
5. **Chime (Financial Software)** — $700M, San Francisco, US — Banking — *Series E*
7. **N26** — $570M, Berlin, Germany — Banking — *Series D*
8. **Revolut** — $500M, London, UK — Payments/transactions — *Series D*
9. **Robinhood** — $430.3M, Menlo Park, US — Wealth/Investment management — *Series F*
10. **Navi Technologies** — $397.9M, Bengaluru, India — Payments/transactions — *Angel****

Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.
**Grab's round is classified as late-stage VC until further documentation confirming it is Series I is available.
***Navi's round is classified as angel given the fact a consortium of individual investors was responsible for the funding.

Mid-sized fintechs continue to consolidate



Mid-sized fintechs continue to consolidate in pursuit of market share or new products and services

Although M&A has fallen off given the impact of the COVID-19 pandemic overall, there are still a slew of deals, albeit often smaller than in the past, still being cut by strategic acquirers positioning for larger market share as they look to grow into more commanding positions, or in search of overall expansion of capabilities, whether in products or services or both. Much activity still remains concentrated in payments, as can be seen in the table to the right, however, some banks are also trying to elevate their capabilities and also consolidate to boot.

Global strategic M&A of fintech by select acquirers*, top 10 deals in 2020*

Company	Acquirer	Date	Deal size ($M)
Prepaid Financial Services	EML Payments	4/1/2020	$162.3
Moka (Financial Software)	Gojek	4/20/2020	$130.0
Innovest Systems	SS&C Technologies	5/18/2020	$120.0
Payzone Ireland	Allied Irish Banks, First Data	1/1/2020	$83.4
Elavon México	Banco Santander	3/13/2020	$82.1
Gold Coast Bank	Investors Bancorp	4/3/2020	$63.5
Nord Pool Spot	Euronext	1/15/2020	$63.1
Ventanex	Realtime Electronic Payments	2/10/2020	$50.0
Delerrok	Cubic	1/3/2020	$39.0
Deltix Labs	EPAM Systems	2/3/2020	$29.6

Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.
Note: select acquirers refers to companies that are either within financial services or were valued at or raised $100 million at the time of a transaction.

Not for distribution in the USA.

Top fintech trends for H2 2020

COVID-19 is a black swan event, affecting every region of the world significantly during H1'20. Widespread efforts to contain the virus have driven a significant shift in both customer and business behaviors, a shift that has affected many sectors, including fintech.

In our still uncertain world, here are our top predictions for fintech in H2'20:

Acceleration of digital trends

COVID-19 is driving a major shift in customer behaviors — with a rapid increase in the use of digital payments models and online product and service channels. It has also shifted how businesses operate, with many accelerating investments in digital channels and related enablers in order to meet customer needs. This acceleration will continue to drive fintech investment geared toward succeeding in the 'new normal'.

Rise of platform business models

Platform companies and large tech companies will continue to branch into financial services areas, such as payments to broaden their service offerings, provide seamless services to customers across their digital ecosystem and drive expansion into new markets.

Fintechs moving into adjacencies

In order to better compete and gain additional market share, mature fintechs will continue to expand into adjacencies to drive more customer value.

Strategic deal activity from corporates

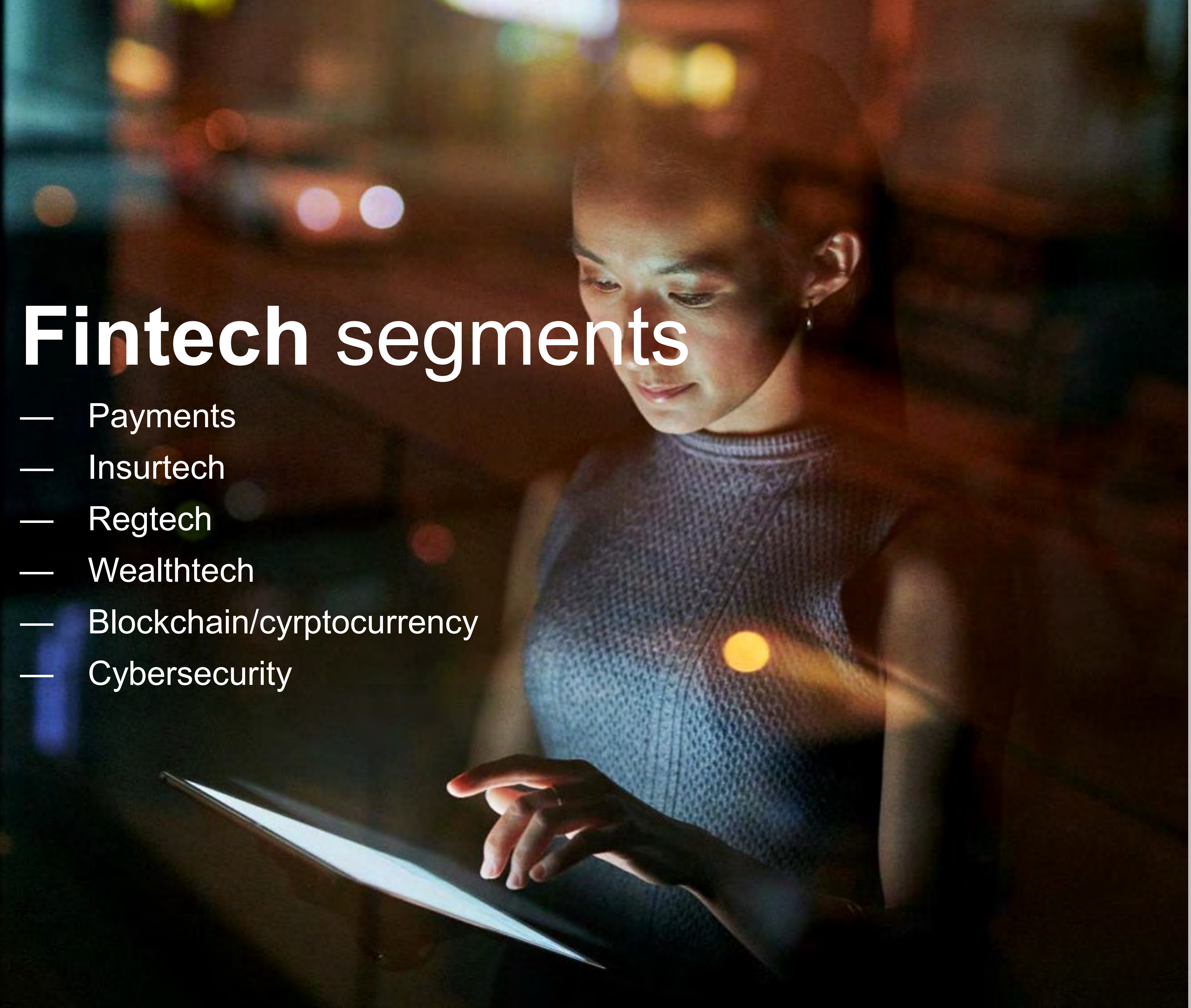
There will be increasing fintech investment from corporates, not only in customer-orientated digital technologies, but also in the back office space as a means to improve operations and better manage costs.

Consolidation

With many early stage fintechs struggling to attract continued funding, H2'20 will likely see increasing consolidation among fintechs, in addition to increasing acquisition activity as opportunistic investors look for deals.

Governments focusing on fintech regulations

Governments across the globe will continue to focus on regulation, whether customer privacy, open banking or the issuance of new licenses. While much of the regulation will be to keep consumers safe, it will be increasingly used to foster fintech investments and encourage sector growth.

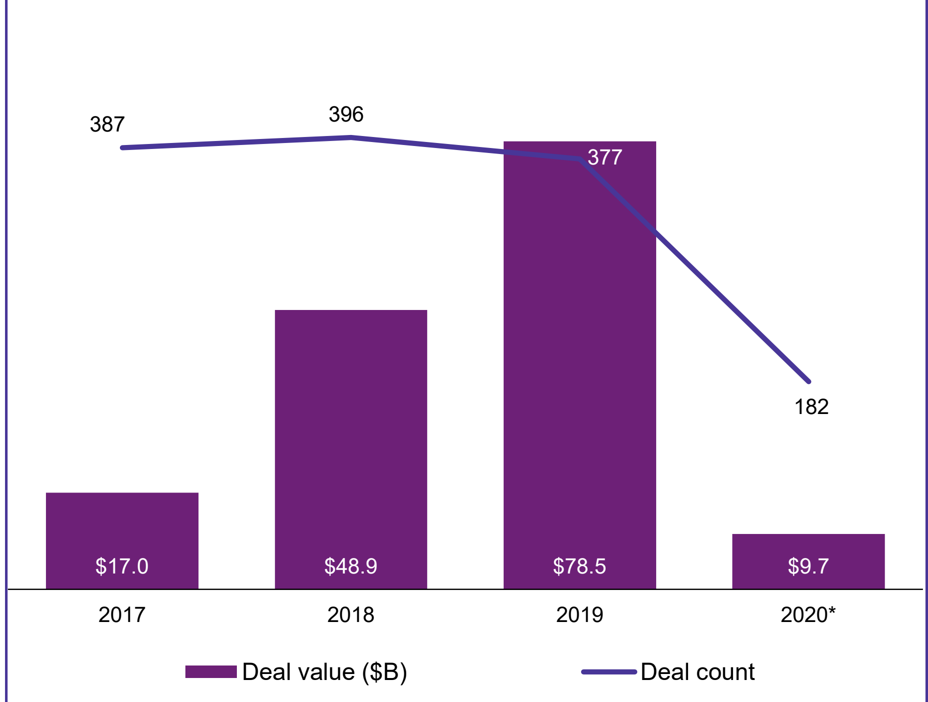


Fintech segments

— Payments
— Insurtech
— Regtech
— Wealthtech
— Blockchain/cyrptocurrency
— Cybersecurity

Payments space no less active despite lack of mega-mergers

Total global investment activity (VC, PE and M&A) in payments
2017–2020*



2019 saw several mega-mergers in the payments space, including the US$42.5 billion acquisition of WorldPay by FIS and the US$22 billion acquisition of First Data by Fiserv. With no mega-mergers as of yet in 2020, investment in the payments pace looks soft, however, associated global deals activity remained very strong in H1’20.

H1’20 VC deals focus on mature payments providers

In H1’20, investors in the payments space focused on late-stage companies, a trend that reflected investment patterns more broadly given the uncertainty related to COVID-19. During the first 6 months of the year, Stripe raised US$850 million, Chime raised US$700 million and Revolut raised US$500 million.

M&A could see surge in H2’20 as COVID-19 takes toll

M&A activity could see a surge in H2’20 as investors or companies that have built up their cash reserves look for bargains. The extended impact associated with the pandemic could cause early-stage and less liquid payments startups major challenges, creating opportunities for their better-capitalized counterparts. More mega-mergers are also possible as large companies look to build out their capabilities, create scale and become more price competitive.

Source: Pulse of Fintech H1’20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights

#fintechpulse

Fintech — Payments

Corporates adapting to change

The payments space is one area where leading corporates are not resting on their laurels. Mastercard and Visa are both active dealmakers, both from an acquisition standpoint and from a partnering perspective. Neither appears to expect money movement to continue along traditional rails. They are working to enhance the capabilities of their legacy infrastructure to emulate a more real-time money movement and to provide more capabilities, particularly in the B2B space. For example, in H2'20, Visa announced its acquisition of API-focused Plaid for US$5.3 billion[4], while Mastercard announced its acquisition of open banking focused company Finicity for US$825 million[5].

Niche payments companies still attracting funding

While large players continued to attract the lion's share of funding in the payments space, there continued to be room for nimble organizations looking to take friction out of the payments process to attract funding. This was particularly true for companies targeting niche verticals, such as healthcare payments or cross border payments.

Trends to watch for in H2'20

Heading into H2'20, the payments space will likely see more bundling of capabilities in order to deliver a more seamless customer experience for digital transactions. There will likely also be an increase in startups focusing on niche verticals, such as healthcare and real estate, and on solutions targeting the cross-border payments space.

Not for distribution in the USA.

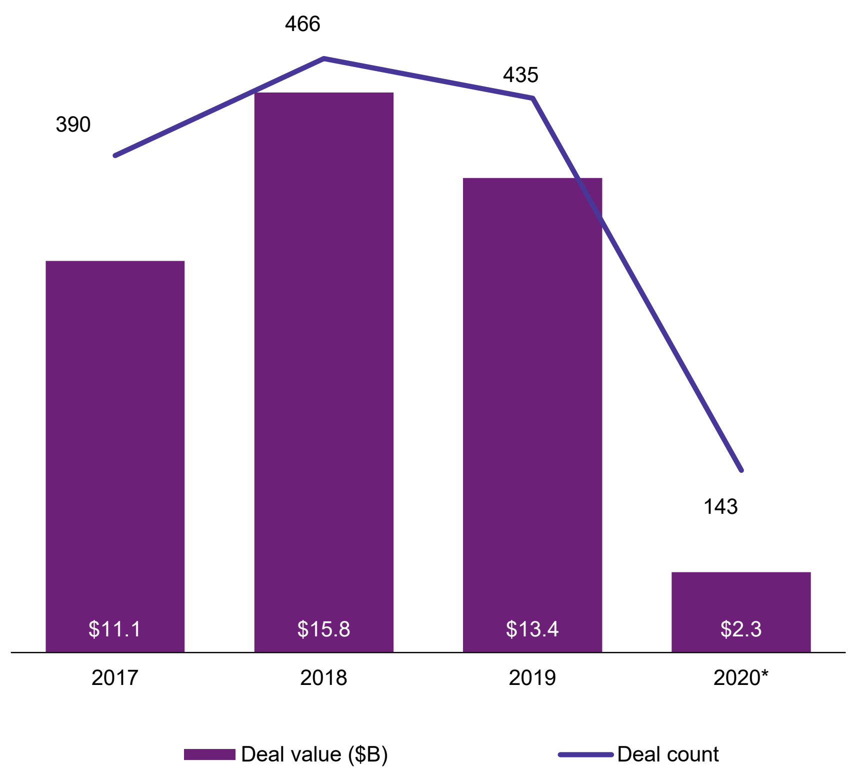
> "We will likely see more bundling of the capabilities that are necessary to deliver a seamless experience for digital transactions at the point of sale, online and through mobile.
>
> We may also see more startups focusing on vertical industries, whether it's healthcare, real estate or others to provide a highly digital and frictionless customer experience. And there will likely be larger scale acquisitions in the play as well, as we begin to look beyond domestic payments and begin thinking about cross-border."

Chris Hadorn
Global Leader of Payments, KPMG International
Principal, Financial Services, KPMG in the US

[4] https://www.cnbc.com/2020/01/13/visa-to-acquire-plaid-the-fintech-powering-venmo-and-other-banking-apps-for-5point3-billion.html
[5] https://www.marketwatch.com/story/mastercard-scoops-up-open-banking-company-finicity-amid-big-digital-push-2020-06-23

Insurtech investors pull back in H1'20 amid storm of challenges

Total global investment activity (VC, PE and M&A) in insurtech
2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

VC investment in insurtech dropped significantly in H1'20 as a number of factors combined. Even before COVID-19 slowed down the deal pipeline globally, the insurtech sector saw pullback from corporate investors due to frothy valuations and from traditional VC firms due to the lack of significant exits outside of a few large acquisitions.

US leading global insurtech drive

The US continued to be the dominant insurtech center globally, accounting for seven of the top 10 insurtech deals in H1'20, including six US$100 million+ funding rounds (i.e., Duck Creek Technologies, Oscar, Zing Health, Pie Insurance, States Title and Policygenius).

However, opportunities for insurtechs are increasing in Europe and Asia, as evidenced by the US$81 million PE investment in India-based Digit insurance, the partial buyout of Hungary-based Netrisk for US$61 million and the US$53 million funding round by Alan Health Insurance in France.

Traditional VC investors rewarding insurtech challengers

Recently, a significant proportion of VC funding in the insurtech sector has gone to companies looking to grow by becoming a full stack carrier, such as Lemonade or Metro Miles, or by looking to write on someone else's paper. In H1'20, several MGA-model insurtechs attracted large deals, including US-based workers compensation focused Pie Insurance, UK-based pet insurer Bought by Many[6] and US-based cyber insurtech Coalition. Insurtech investors are increasingly focusing on profitability, investing in companies with scalable business models that are able to grow their topline revenue and expand their offerings into new markets.

[6] https://insurance-edge.net/2020/05/05/no-corona-didnt-stall-insurtech-bought-by-many-gets-78m-funding-boost

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

US-based insurtechs making acquisitions in bid for growth

In the US, a number of mature insurtechs have realized that between COVID-19 uncertainty, growing valuations and the difficulty corporates have experienced integrating acquired insurtechs that an M&A exit might not deliver the desired ROI to investors. This has led some to take growth into their own hands in order to attract additional investment and make a future IPO more appealing. For example, digital title company States Title acquired title underwriter North American Title in early 2019 as part of an acquisition strategy that saw it significantly increase its transaction volume[7]. In H1'20, States Title raised a US$123 million funding round.

Trends to watch for in insurance

Insurtech unicorn Lemonade, which has made a name for itself digitizing homeowners and renters insurance, went public in July 2020. The firm's stock price shot up initially before pulling back somewhat over the following month. The overall success of the IPO may well open the door to a bevy of insurtechs looking to raise money in the public markets.

> "We've always thought of insurtechs as the acquisition targets. Now we're starting to see the trend where insurtechs are becoming the acquirers. I think this is a very important distinction and is why some are able to raise so much money."

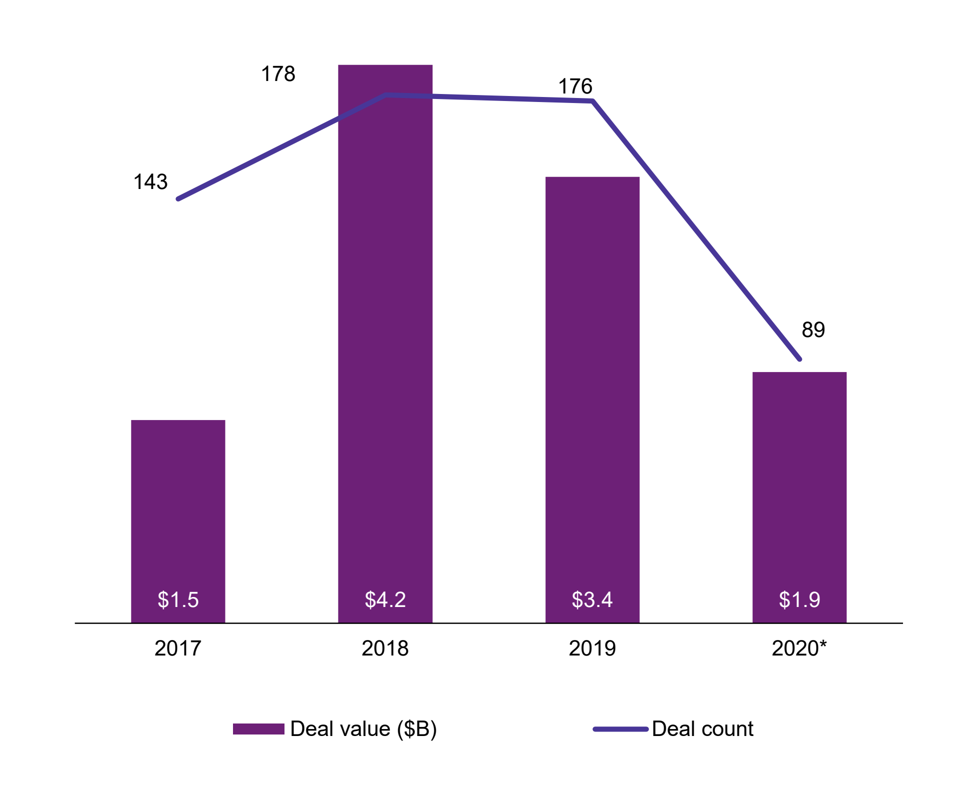
Gary Plotkin
Global Insurtech Leader, KPMG International,
Principal, Insurance Management Consulting Leader, KPMG in the US

[7] https://www.inman.com/2020/05/21/digital-closing-startup-states-title-raises-123m-latest-funding-round

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

As regulations evolve, regtech becomes more pivotal

Total global investment activity (VC, PE and M&A) in regtech
2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Despite a decline in the number of regtech deals, total investment was on pace at mid-year to exceed 2019 investment. As jurisdictions around the world continue to evolve regulations related to financial services, such as privacy rules and open banking regimes, regtech is only expected to become more important.

Regtech booming as companies face pressure to reduce costs, improve compliance

Given the challenges associated with COVID-19, financial services companies globally are facing increasing pressure to reduce costs. At the same time, many are embracing digital business models and digital solutions in order to service their customers remotely — solutions that present new risks that companies must manage. This is driving increasing interest in regtech as financial institutions look to enhance their ability to manage regulatory compliance without increasing the structural costs.

Regulations keep changing, making compliance more complex

The Markets in Financial Instruments Directive II (MiFID II), the Fundamental Review of the Trading Book (FRTB), various regulations related to the protection of personal data, the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) and other regulations have reshaped and will continue to reshape the regulatory and compliance environment in financial services. Individual jurisdictions have also introduced requirements for fintechs, such as Singapore's new Payment Services Act. As requirements continue to evolve, both in terms of requirements and complexity, regtech is expected to become more important, particularly for companies operating on a global scale that need to be compliant across jurisdictions.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Regulators embracing regtech

Regulators in a number of jurisdictions are driving interest and investment in regtech as a means to improve compliance among their regulated entities. For example, the US Commodities Futures Trading Commission (CFTC) established LabCFTC as a mechanism to support innovation and improve the quality and competitiveness of regtech and broader solutions. In the UAE, the Financial Services Regulatory Authority of the Abu Dhabi Global Market (ADGM) is conducting several regtech pilot projects, including the use of bots for dealing with license applications and trialing of API-enabled regulatory monitoring[8].

Trends to watch for in regtech

In Europe, there will likely be increasing opportunities and demand for regtechs that can help companies manage the transition between UK and EU financial regulations, and respond more readily to changing regulations in both jurisdictions post-Brexit. Corporates are expected to become more interested in regtech moving forward, particularly in areas like KYC, customer protection and data security.

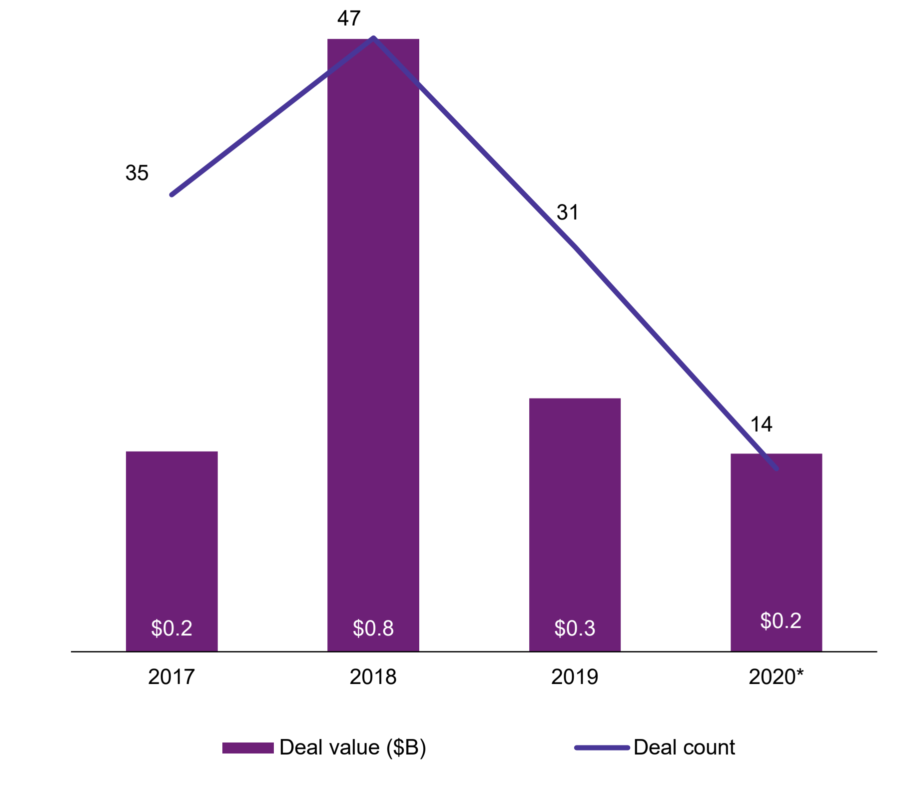
> “Digital transformation is still one of the main drivers of regtech. We see a lot of regtechs dedicated to helping financial institutions keep track of new regulations and their potential impact. KYC, customer protection and data security are also driving the advancement of regtech.”

Fabiano Gobbo
Global Head of Regtech, KPMG International
Partner, Risk Consulting, KPMG in Italy

[8] https://www.adgm.com/media/announcements/fsra-launches-regtech-initiatives

Consolidations projected as wealthtech investment remains soft

Total global investment activity (VC, PE and M&A) in wealthtech
2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

As one of the younger areas of fintech, wealthtech started to see a slowdown in investment in 2019 as investors focused more on late-stage companies and safe bets. This trend continued in H1'20 due to the global impact of COVID-19, although investment is trending upward year-over-year, due, in part, to a US$135 million raise by US-based Aspiration.

Wealth managers rethinking operating models in wake of COVID-19

COVID-19 has moved technology to the top of the agenda for many wealth managers given their sudden inability to do work traditionally. They've had to very quickly rethink their business models and find ways to do what they have done for decades using technology. While investment will likely remain soft for the remainder of 2020, the enhanced focus on wealthtech will likely revitalize the space in 2021.

Robo-advisory getting a second lease on life

Over the past 12 months, robo-advisory lost some of its shine as investors realized the long-term nature of the play. The space is starting to get a second lease on life, however, due to decreasing interest rates and an increasing appetite by individuals to invest themselves rather than suffer the cost of traditional approaches while getting average returns. This shift has highlighted the validity of the business model and helped to enhance management and investor confidence. The main challenge for robo-advisory firms will likely revolve around managing through the next 3 to 5 years or more that it will take to be seen as mature businesses.

Consolidations could come by year-end

Consolidations are expected in the wealthtech space either through consolidating books of business for companies that do not have the working capital needed to sustain them, or through the forging of big partnerships in order to drive economies of scale. As equity backers balk at the timeframes required to get high growth but low-margin businesses to profit, they will likely look for opportunities to liquidate or divest some investments. This is likely to prompt established wealth managers and banks to make deals in order to grow or expand their own lines of business.

Trends to watch for in wealthtech

Heading into H2'20, there will likely be an increase in opportunistic deals as wealthtechs with inherently good technologies struggle.

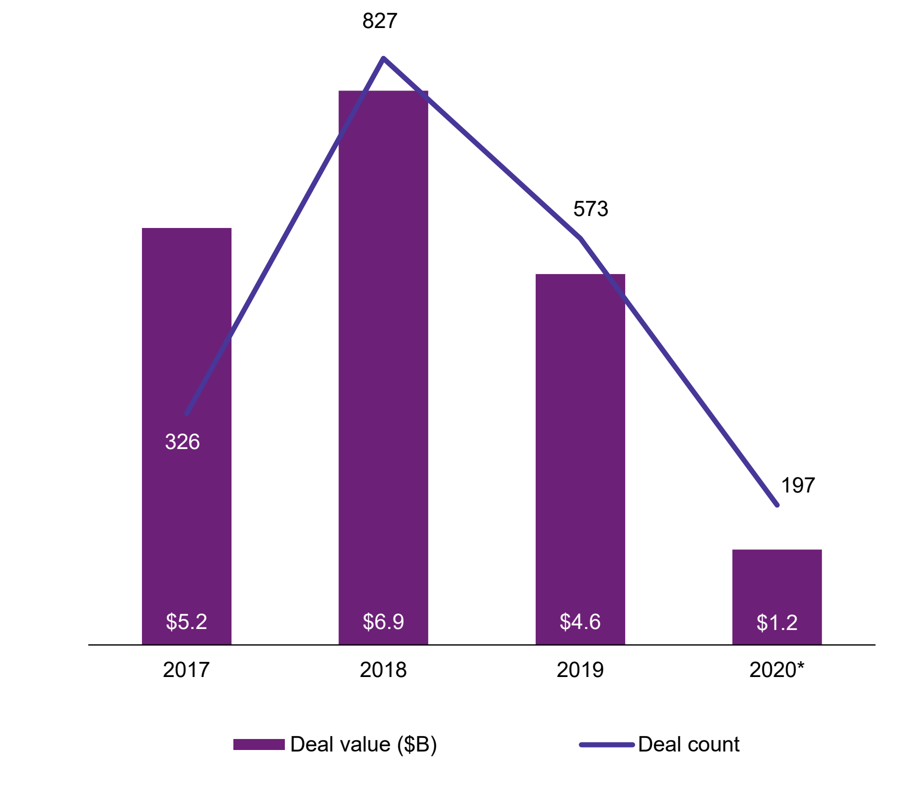
Over the medium term, there will likely be more investment in the less glamourous areas of wealthtech as traditional wealth managers look to improve their back and middle offices.

> "COVID-19 has really put into sharp relief the operating costs of the wealth management business and everyone has learned that you can't simply run a business from sitting at home.
>
> This has really amped up the technology agenda for established wealth management companies to find better ways of doing what they have done for decades but with technology. This is going to revitalize the sector long-term."

Bill Packman
Partner and Wealth and Asset Management Consulting Lead,
KPMG in the UK

Blockchain ecosystem continues to evolve despite drop in investment

Total global investment activity (VC, PE and M&A) in blockchain & cryptocurrency
2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

VC investment in the blockchain and cryptocurrency space fell during H1'20, due partly to COVID-19 and partly the intensifying focus on value. Digital asset platform Bakkt's US$300 million funding round was the largest in the sector in H1'20, followed by cross-border payments firm Ripple's US$200 million raise.

Vertical-integration taking priority as blockchain consortia focus on driving real value

During H1'20, blockchain consortia continued to shift away from a homogenous approach towards a focus on bringing together value chain partners to develop sector-specific, vertically-integrated use cases. Given the complexity of supply chains, lack of trust and increasing availability of data, it is expected that in H2'20 blockchain activity will focus on enablement. For instance, developing common languages (e.g. data taxonomies) to support blockchain use and foster trust.

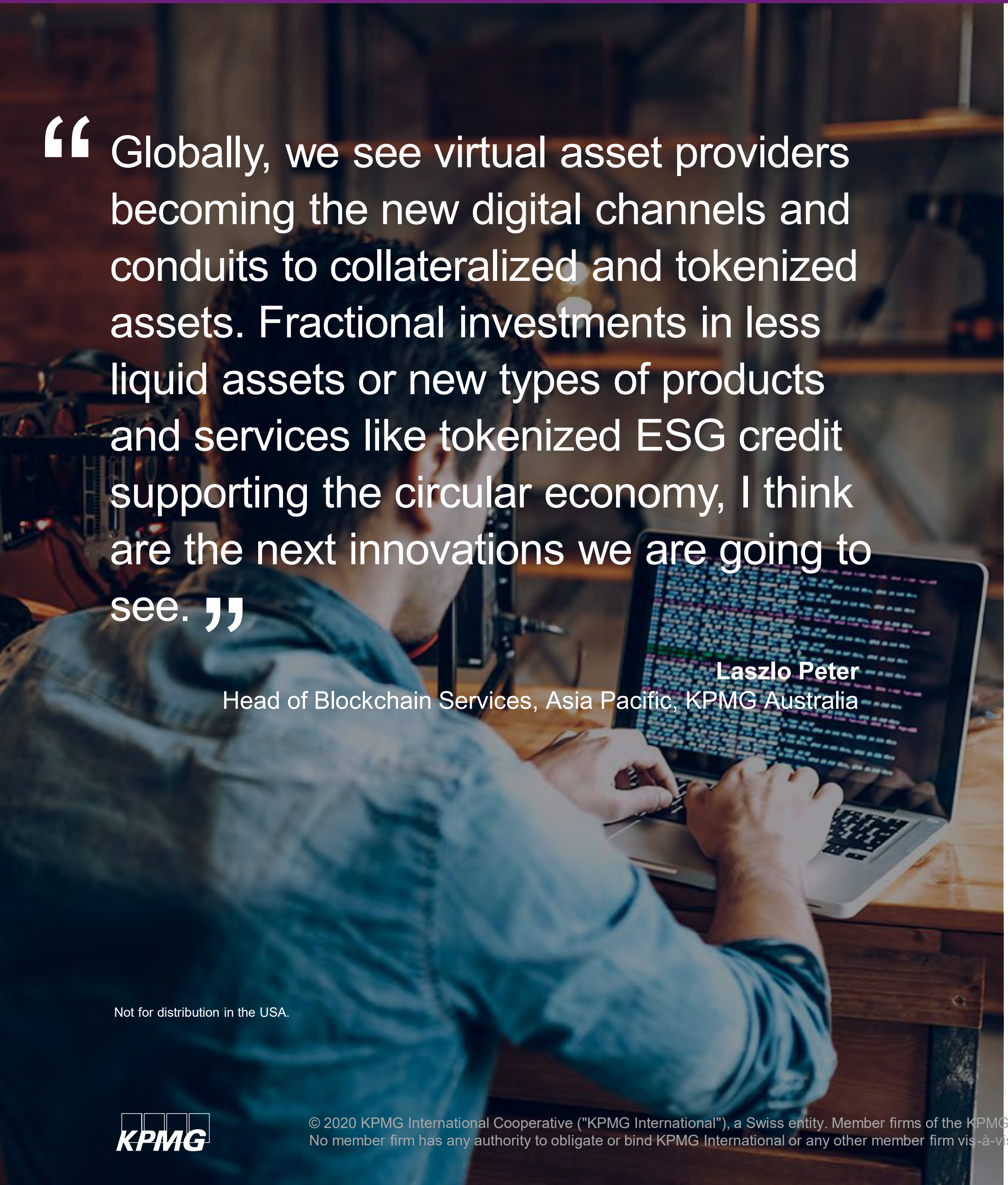
Digital Asset Exchange licensing draw attention to Hong Kong (SAR) and Singapore

Licensing of digital asset exchanges was a key topic in H1'20, particularly in Asia. H1'20 saw virtual asset providers examining the regulatory framework release by the Hong Kong Securities and Futures Commission in Q4'19. The framework allows digital asset exchanges to be licensed and regulated under a new sandbox-style approach[9], although it is limited to providers with at least one virtual asset considered to be a security.

In June 2020, the Monetary Authority of Singapore implemented the Payment Services Act, which included a licensing regime for digital asset exchange and platforms[10]. Both licensing initiatives could attract interest from global crypto platforms looking to gain investor trust and user traction.

9 https://hongkong.dentons.com/en/insights/articles/2020/may/5/a-comprehensive-guidance-for-crypto-exchange-operators-in-hong-kong/
10 https://news.bitcoin.com/singapore-introduces-licensing-for-crypto-platforms/

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
fintechpulse



“Globally, we see virtual asset providers becoming the new digital channels and conduits to collateralized and tokenized assets. Fractional investments in less liquid assets or new types of products and services like tokenized ESG credit supporting the circular economy, I think are the next innovations we are going to see.”

Laszlo Peter
Head of Blockchain Services, Asia Pacific, KPMG Australia

COVID-19 accelerating government interest in digital currencies — particularly in Asia

COVID-19 has intensified the shift away from cash in many jurisdictions. This has helped accelerate the focus of different governments on digital currencies.

During H1’20, China accelerated its development of a digital renminbi. In May, it initiated a trial of the e-RMB in four cities[11]. In the same month, officials in China also proposed the creation of a pan-Asian stablecoin in order to improve cross-border trade in the East Asia region[12].

Trends to watch for in H2’20

Looking forward, the digital asset trading platforms that obtain regulatory licenses will likely be in a better position to attract trust and institutional money. In the vein of JP Morgan, other corporate players will likely also move forward with issuing their own collateralized tokens. Over the next 6 to 12 months, digital ledger technology (DLT)-focused startups and blockchain consortia will likely also look to blend DLT with other technologies in order to create new products and services.

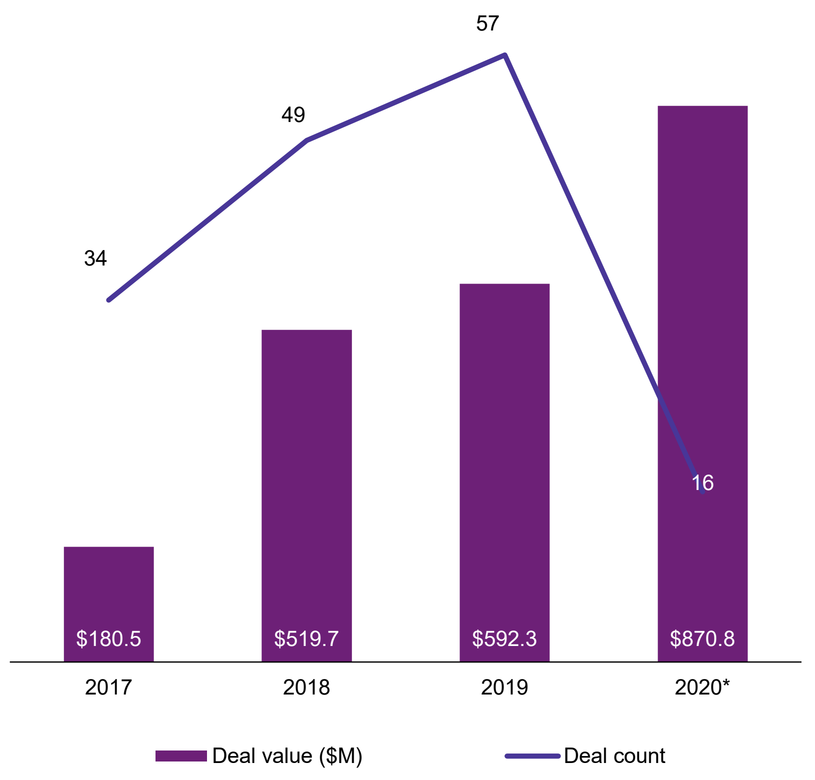
[11] https://www.theguardian.com/world/2020/apr/28/china-starts-major-trial-of-state-run-digital-currency/
[12] https://cryptobrowser.io/news/china-officials-propose-the-creation-of-an-east-asian-stablecoin//

Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

H1'20 cybersecurity investment soars past 2019 annual total

Total global investment activity (VC, PE and M&A) in fintech: cybersecurity 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

At mid-year, total investment in cybersecurity was well above the investment seen in all of 2019, led by the US$700 million acquisition of anti-fraud firm RDC by Moody's in February. As businesses around the world scrambled to empower people to work from home due to COVID-19, there was a significant increase in concern about attacks, ransomware and potential internet disruptions. Concern about general fraud was also high as governments allocated significant funds to mitigate the impact of the pandemic on both individuals and businesses.

Detective capabilities and automation take center stage

In H1'20, there was an increasing focus on detective capabilities and products, in addition to a continued focus on identity and access controls related to consumer privacy and consumer fraud prevention. AI and automation were also big priorities for corporates looking for ways to better manage their spend. Given the rapid rise in remote access and use of online channels, it is expected that both corporates and other investors will increasingly invest in password-less technologies, biometrics and behavior monitoring solutions.

Cloud is the new normal

While there has been a strong shift toward cloud solutions over the past few years, the pandemic has seriously challenged many legacy firms that have not gone down the cloud path. The sudden strain on legacy infrastructure resulting from the major shift to remote work poses a serious threat to operational resilience. With companies also looking for quick ways to create digital customer sales and service channels, cloud is quickly becoming the new normal. These shifts are driving companies to rethink their risk and controls to account for different platforms and connections, which will likely lead to an upswell in interest in cloud governance and security solutions.

Fintech — Cybersecurity

Consolidations are coming

In H2'20, there could be some consolidation among cybersecurity startups as VC investors focus on big ticket offerings and small firms struggle. More mature cybersecurity firms will likely use the opportunity to pick up their smaller competitors and gain market share. There could also be a few large-scale acquisitions as global companies sell off portions of their cybersecurity businesses to more traditional managed services firms.

Trends to watch for in cybersecurity

Over the next 6 months, cybersecurity is expected to be a very hot area of investment, particularly in areas related to cloud security and governance. Access and identity management will likely also be big priorities given the increasing focus on fraud prevention and detection.

> "Given how people are now working and how businesses are now operating, we're already seeing a huge uptick in interest in cybersecurity, particularly in consumer identity and access controls.
>
> Looking forward, we're going to see big interest in fintechs focusing on fraud prevention and on providing smooth, more password-less cyber capabilities. Interest is going to absolutely explode if it hasn't already."

Charles Jacco
Principal, Financial Services Information Protection and Cyber Security Leader, KPMG in the US

Featured interviews

Adrian Poole — Head of Financial Services, Google Cloud Platform UKI

King Leung — Head of Fintech, InvestHK

Alex Scandurra — CEO, Stone & Chalk

Google: Taking friction out of financial services

Can you tell us about Google Financial Services?

Our mission is to help clients in financial services solve their biggest problems and transform their businesses, Our focus is on solving our clients' challenges, from Markets in Financial Instruments Directive II (MiFID II) to improving their liquidity calculations, how they think about risk and pricing and reducing friction in their contact centers.

What trends are you seeing in financial services?

With a post-COVID lens on your question, the number one theme that has come up is **cost takeout and the acceleration to digital**, such as the migration out of datacenters, hosting things like Oracle and Microsoft, and moving to more cloud native technologies.

The second theme we're seeing is around **reinventing the core**. A lot of clients have reached out to us to discuss mainframe modernization and migration, and we're doing a lot of work with fintechs like Thought Machine and Temenos to provide alternatives for clients in that space.

The third theme, I'd say, is around **how to use data effectively**. Our clients know they have a lot of internal data and that there's a lot of data that's available externally. They want to be able to integrate that data to get more insights and then apply artificial intelligence (AI) and machine learning (ML) technologies to become more predictive, and to provide more personalization around what they do.

From Google Cloud's perspective, that can all be done within a wrap of a collaboration solution. Our G Suite productivity solutions include documents, spreadsheets and presentation tools, but also Google Meet for video conferencing, which has been very topical in the current COVID-19 pandemic. We've seen increased demand with over 100 million daily Meet participants globally.

How has Google been working with fintechs?

We have been working with fintechs for many years. Most recently, in the UK, we've created a fintech incubator to accelerate how fintechs create their offerings and go to market. As a part of the incubator, we're working to bring the best of the Google brands together [Google Cloud, Google Ads, Google Pay, etc.] to help fintechs succeed. We're also working with systems integrators, like KPMG, to bring more value to fintechs, whether it's creating the initial landing zones or providing the assurance of those landing zones from a security and compliance perspective.

What is Google's involvement with Reimagined Credit?

Reimagined Credit is one of the solutions that came out of the KPMG Google Cloud Alliance. It's aimed at transforming commercial lending by providing banks relevant, timely and predictive insights to assess their customers' needs.

Many small and medium-sized enterprises (SMEs) struggle to get their value recognized by banks when looking for financing. With Reimagined Credit, banks can leverage a wider range of data — like demand and market data, network analysis, competitor information — to get better insights and make more informed and timely decisions.

The development of this solution started in the UK, but we're now working with a number of Tier 1 and Tier 2 banks globally, in the UK, Canada, Germany and the US.

This is just the beginning. If you think about the overall holistic needs of SMEs, what we're trying to do is predict needs, but then help service any requirements through the lifecycle of a loan, so thinking about liquidity, risk and return on investment.

Part of the work we're doing with KPMG is building an ecosystem to go around this. We're bringing in firms like Quantexa to make it more of a holistic solution, as opposed to a point solution. We're also thinking about what some of the new use cases could be around these models.

Featured interview with Adrian Poole, Google Cloud UKI

What do you expect to see for the future of fintech?

The fintech environment is becoming a very positive ecosystem. The age where we build these megalithic applications is gone. I think the future will be about pulling together best-in-class fintechs and independent software vendors (ISVs) to create a patchwork of microservices. This approach means that change can happen more quickly.

What really excites me is how fintechs can be a key element to accelerating change and how we can collectively work to reduce friction in financial services and provide more personalized services.

> "What really excites me is how fintechs can be a key element to accelerating change, and how we can collectively work to reduce friction in financial services and provide more personalized services."

Adrian Poole
Head of Financial Services,
Google Cloud Platform UK & Ireland

About KPMG Reimagined Credit for SME Banking

Built on Google Cloud, Reimagined Credit is designed to give banks the relevant insights to intuitively assess their commercial customers' needs while reducing time to credit decision and funds disbursement.

The Machine Learning algorithms seek to enhance existing data points with market and company data to generate in-depth and predictive financial profiles, anticipating bank customers' financial needs and offering a tailored product set.

Reimagined Credit can also give banks the ability to visualize and understand their client relationships with their buyers, suppliers, providers and investors. It aims to transform lengthy product cycle times from months to under an hour and automates ongoing monitoring — offering RMs, product managers and customers an on-demand decision support.

The approach challenges 'one-size-fits-all banking' and is designed to increase return on equity, market penetration and portfolio growth, while also reducing cost and improving brand perception.

Find out more about Reimagined Credit and other solution areas from the KPMG and Google Cloud alliance: home.kpmg/googlecloud

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Not for distribution in the USA.

InvestHK: A phased approach to fintech

Can you tell us about InvestHK?

InvestHK has been around since the early 2000s. Its primary mandate is to attract companies, investors innovation labs, etc. to set up in Hong Kong in a way that promotes a richer ecosystem in various strategic sectors. We have nine sector teams. The fintech team is the newest, established back in 2016. Under the directive of Financial Services and the Treasury Bureau (FSTB), our Fintech Unit is also responsible for helping foster a vibrant Fintech Ecosystem with the ultimate goal of raising the competitiveness of the financial services sector in Hong Kong.

How is the fintech ecosystem evolving in Hong Kong?

Our ecosystem is evolving in phases. During the first phase, we saw lots of activity on low hanging fruit. Payments is a good example of this. Hong Kong is the center of a lot of cross-border payments and transactions. Because of our unique position, we have a very large and well-developed payments ecosystem. A number of companies are getting sizeable investing funding. For example, Airwallex, one of our unicorns, recently closed a US$160 million investment in April. Lending is also part of phase one, as well as wealthtech because of Hong Kong's enormous market size for wealth management.

Now, I would say we are in phase two. **As a part of phase two, we are seeing the rise of insutech, regtech and enterprise solutions.** Hong Kong has many banks, insurance companies and asset managers so we have very fertile soil for B2B fintech solution providers. Two other segments that might not be mainstream but highly strategic in Hong Kong are capital markets and the digital asset space. It goes without saying that because of Hong Kong's world leading capital market, major players such as HKEX and investment banks are actively looking for innovative technologies. Hong Kong is also one of the largest crypto markets in terms of liquidity flow. In November 2019, our regulator launched a new regulation that will give licenses for crypto exchanges. This is really going to legitimize the whole crypto space, which will likely spur more investment here in Hong Kong.

Looking ahead, **phase three is going to be about more advanced products** that require sophisticated technologies such as AI and DLT to support and deliver.

How has COVID-19 affected fintechs in Hong Kong?

One area is remote on-boarding, such as KYC and digital ID. There are numerous companies in that space, but for them the pace of adoption has been modest. The past few months changed all that. Some of the leading incumbent players have seen online customer growth of 30-40 percent. Newer players are seeing 100 percent customer growth. There is no doubt the pandemic is a factor in this growth. People at home are doing their banking and looking for related services online.

What are you most excited about for the future?

Over the past 12 months, Hong Kong has issued a number of new virtual bank licenses. Now, various licensees are revving up operations. For example, Mox Bank collaborated with Mastercard on a credit/ATM card with no numbers. This is a good development in terms of security and consumer protection. Imagine that every new virtual bank will have a new hook to set themselves apart. We are excited about what those new innovations will look like.

> "Our ecosystem is evolving in phases… Looking ahead, phase three is going to be about more advanced products that require sophisticated technologies such as AI and DLT to support and deliver."

King Leung
Head of Fintech, InvestHK

Not for distribution in the USA.

Stone & Chalk: Power of impact networks

Can you tell us about Stone & Chalk?

Founded in Fintech in 2015, Stone & Chalk is a not-for-profit which brings together founders, investors, mentors, industry and government stakeholders into what we call an impact network, which is designed to drive growth, advocacy and commercialization. We've got campuses in Sydney, Melbourne and Adelaide, with approximately 150 startups and scale-ups that are our physical residents.

What do you mean by 'impact network'?

For some time we've struggled with what to call ourselves, as in many ways, we are creating a new category. We run accelerator programs, we incubate companies and we're a service provider to corporates and governments. So, we've coined the term 'impact network' to really encapsulate what we do for our customers and the role our stakeholders play.

How would you describe Australia's fintech ecosystem?

We've got a broad array of fintechs — everything from payments to origination platforms, compliance platforms that are enterprise grade to wealth management. There's a lot happening on alternative lending. Neobanks have been resurging over the last few years…[and] alternative credit models. There has been quite a nice explosion in both the B2C and the B2B space, either B2B or partnering through enterprise to reach the end-consumer.

How is COVID-19 affecting fintech investment?

A lot of organizations are trying to implement new systems to help them with compliance [while] limiting manual effort and human error. Likewise, when it comes to origination, there's a lot of focus around improving cost-to-income ratios and structural cost takeout through various forms of modernization and automation of core business processes.

Not for distribution in the USA.

> "There's no better way for large organizations to improve performance and reduce time and cost to market than by collaborating with startups and scale-ups and innovating from the outside in."
>
> **Alex Scandurra**
> CEO, Stone & Chalk

How important is collaboration with fintechs and how are partnerships evolving?

There's no better way for large organizations to improve performance and reduce time and cost to market than by collaborating with startups and scale-ups and innovating from the outside in.

We're seeing a lot more collaboration with larger scale fintechs compared to a few years ago. For example, Afterpay, a consumer credit provider that has only been around for 5 years and is already listed with a market cap of about US$20 billion, just launched a partnership with Qantas Loyalty in terms of allowing customers to Afterpay purchases through Qantas' loyalty program.

What's next for Stone & Chalk?

Stone & Chalk residents and alumni have secured over AU$520 million (~US$376 million) in funding in just 5 years from when we first commenced operations. Now, we're taking our impact network from being a physical-centric model to a hybrid physical/digital offering. It's a journey that we started before COVID-19, but have certainly accelerated because of it. Our vision is to bring together all leading innovators and people that are trying to solve the world's most pressing business and social challenges. And so, for us, going digital and providing support across our impact network for organizations in any location is fundamental.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Spotlight

Stay ahead with analytics in the cloud

— COVID-19 has accentuated the need for rapid insight and control

Don’t overlook tax when building fintech capabilities

— A consistent and aligned approach is key in an age of enhanced scrutiny

Stay ahead with data analytics in the cloud

COVID-19 has accentuated the need for rapid insight and control

One of the most critical and elusive resources of any financial institution is data. As organizations interact with customers in more digital ways, the mass of data grows. Integrating, accessing and managing data, with strong governance and controls, is a prerequisite for financial businesses today, both for compliance and ethical reasons.

But in many institutions, particularly for the established more traditional players, this data is frequently disparate, held across a range of platforms and systems. Because of this, firms struggle to generate value-adding insight from all the customer data held throughout the enterprise.

Connecting internal and external data has become significantly more top of mind in the midst of COVID-19. So much has changed so quickly. A bank's customers are suddenly in very different financial positions compared to life pre COVID-19 and many factors are driving those changes, often faster than models can be adapted.

Connecting internal and external data is key in a post-COVID-19 mind-set:

Inevitably, the adaptability of risk functions has become a key concern. How has the pandemic affected business segments or individual clients? What are the ramifications for each of the risk stripes? What exposures do we need to manage differently? How do we even know what is driving the changes?

> "Connecting internal and external data has become significantly more top of mind in the midst of COVID-19."

In such times, leveraging data for insight moves from being a nice-to-have to an essential requirement. And with events moving so quickly, speed is of the essence.

The reality is that in our conversations with many clients over the past few frenetic months, the ability to access and harvest insights from internal and external (both structured and unstructured) data has become a pressing issue. The models and platforms used to gather data have come under stress in such a volatile, fluid and indeed unprecedented environment. Most likely, no internal model can be built fast enough to deal with the situations we are experiencing.

This is compounded by the fact that internal data really is only part of the story: it is essential to factor in external data too. Without reference to external data and emerging signals, how can any financial institution make truly robust decisions as the implications and knock-on effects of COVID-19 ripple through sectors and geographies?

Harnessing the power of the cloud

It is in circumstances like this that the power of technology can help companies break new ground, bringing new capabilities into the enterprise. It is a time for firms to embrace data integration and analytics in the cloud. This is why at KPMG, our Financial Services Data Strategy team, together with experts from our Digital Lighthouse enablement teams, have been working with the major cloud providers to create solutions: flexible and scalable platforms that bring together cloud capabilities to help executives such as the Chief Risk Officer (CRO), Chief Financial Officer (CFO) or Chief Compliance Officer (CCO) harvest the power of their internal data and combine that with insights from external data to make faster and more informed business decisions.

Not for distribution in the USA.

Spotlight — Artificial intelligence/data & analytics

KPMG solutions work via cloud platforms, where analytics tools can be turned toward data brought in from traditionally disconnected sources. The scale and speed of public cloud platforms allow firms to source and analyze a whole range of available information about a counterparty, including news reports, press releases, annual reports, 10k and other corporate filings, social sentiment and more. From this, and integrated with internal data, it builds a Decision Board presenting key information and options for execution and interaction.

By utilizing the cloud, new capabilities are opened up, such as access and proximity to third party data, the ability to process information at accelerated pace and increased scale, innovations around data analytics, data modelling and AI techniques. This creates a fuller picture, faster than any existing internal approach, with immediate integrations with workflow and execution tools.

Focusing in

Take credit risk as one example. As stresses hit the cruise industry, which has been significantly curtailed by the pandemic and faces an uncertain future, models and teams struggled to find external leading indicators and how the "ripple effect" would transcend single-counterparty views. Using a cloud-based approach to data management, it becomes possible to quickly assess the size of a lender's direct exposure to cruise sector clients and also any related counterparties that supply services or goods to the cruise industry, such as catering, fuels, uniforms etc. It will present key information and relevant insights that can inform credit decision-making going forward. For an insurer, it could help actuaries assess the risks involved in providing coverage of different types and so factor that in to the setting of premiums. For an asset manager, it could help assess the value or prospects of companies in their funds. The applications are wide-ranging, for both front and back-office use cases

One of the strengths of converging data and analytics in the cloud is the access to smart and innovative analytics and intelligence tools. Commercial loans, for example, are often complex with bespoke wording and terms in contractual agreements. Traditional tools may struggle to recognize the relevant underlying data needed in source systems and loan documentation. But using the cloud and AI, an application can be taught to identify relevant data for making faster and more informed business decisions.

Multiple applications

Credit risk is perhaps the most obvious use case for these cloud capabilities as we navigate the impact of the pandemic. But in fact, such applications can be applied to almost any need that relies on data-driven decision-making, such as operational risk issues, climate risk, macro-economic considerations, customer engagement and experience management, etc.

In this highly uncertain period, now is the time to harness the power of the cloud and advanced data analytics to assess the picture today and help predict and inform your actions in response to future needs for confident and immediate response to volatile market conditions.

Contributors

Benjamin Roberts
Principal, Financial Services Risk & Regulatory, Technology Lead, KPMG in the US

Damian Smith
Director, Digital Architecture Leader, KPMG in the US

Bryce Wagner
Director, Risk Consulting, KPMG in the US

Don't overlook tax when building fintech capabilities

A consistent and aligned approach across taxes is key to managing commercial and fiscal risk in an age of enhanced scrutiny

COVID-19 may have impacted on fintech deal activity in the first half of this year, but there is little doubt that investing in fintech services through either in-house development, partnerships or acquisition may be a significant focus for many financial institutions across the spectrum in the months to come. The pandemic has made the digital agenda more critical than ever — and fintech capabilities could be central to success.

Whatever route you are taking to creating a fintech footprint, there are a myriad of issues to consider. But one important area that often gets overlooked at the outset is tax. In any fintech operation, technology is central to the value they create. This makes them fundamentally differentiated from traditional financial services, where the typical value drivers are people and capital, with technology an enabler. This distinction creates different tax issues that must be factored in if you are not to encounter unwelcome surprises later on, especially as your fintech operation expands into new territories and broadens its customer base.

The OECD's Base Erosion and Profit Shifting (BEPS) project has focused on tax transparency and recommended wide ranging reforms since 2015. The OECD is currently focused on addressing the immediate and longer term tax challenges arising from digital business models and the digitalization of the economy more generally.

Tax authorities have become ever more active in seeking to ensure that any business operating in its jurisdiction, physically as well as digitally, is paying what they consider to be its fair share.

This is even more the case now, with COVID-19 having placed significant pressure on public purses the world over. Increasingly, consumers are also taking account of companies' contribution to society when making their buying decisions, amplifying the commercial significance of being seen to get your tax right.

In order to establish the appropriate tax base, financial institutions need to consider where and how value is created and how the existing narrative changes with the fintech involvement.

Historically, technology activities in financial institutions have been viewed as supportive in nature. As fintech becomes more embedded within the core operations of financial institutions, possibly assuming some or all of traditionally human roles in terms of key functions and management of risks, that may necessitate a revisiting of value drivers. A change in value drivers may, in turn, impact which jurisdictions/legal entities are entitled to the profits and where your tax base needs to be reported, which of course will drive your effective tax rate.

> “In order to establish the appropriate tax base, financial institutions need to consider where and how value is created and how the existing narrative changes with the fintech involvement.”

Technology service or financial service?

When considering how exactly to characterize intra-group relationships and flows in engaging with tax authorities on transfer pricing and corporate tax, there are several indirect tax grey areas it is also worth considering at the outset. For example, whether to present the activity as a single bundled service or break it down into its constituent technology and functional components. This may not seem intuitive to the business but it can have significant implications for costs and profit margin — for instance in the EU, where there is still an (increasingly outdated) distinction between mere technology services (subject to VAT) and substantive financial services (potentially VAT exempt). This somewhat arbitrary distinction leads to uncertainty and, increasingly, litigation around fintechs — which has finally prompted the UK and EU recently to review their overall approach to financial services VAT as digitalization progresses and traditional distinctions break down further.

Digital Services Tax (DST)

There is also the related area of Digital Services Taxes (DST) which have been introduced in various countries around the world. These regimes are primarily designed to tax platform-based technology services — but, not being harmonized and with broad definitions and vague guidance as to what is in scope, there is concern that in some countries they might be applied to certain aspects of financial services too. What's more, while they may not apply to some parts of a fintech business — a core payments services for example – they could apply to others — e.g. an associated shopping and rewards platform.

It is critical, therefore, in considering the relevant parts of your business or weighing up fintech investment opportunities to be clear on how services are viewed in each territory from a commercial and regulatory perspective and to consider the tax implications of the different potential business models. The level of responsibility and risk at each stage in the value chain is often a determining factor but the considerable divergence between global regions on what is seen as falling in or out of indirect or digital services taxation make this challenging to navigate. Holistic consideration of tax implications at the outset for the key jurisdictions can help guide commercial decisions about the business model and the strategy for engagement with the different tax authorities. It will also be important to think about the quality of data available and the ability of the in-house tax team to meet ever growing tax reporting obligations.

Conclusion

With tax scrutiny likely to continue to rise in the post COVID-19 landscape, it is more important than ever that fintech activities and their tax costs and implications are properly factored into the business's due diligence on deals and overall strategy. A best practice would be for the tax department to work closely with the business, becoming a strategic partner in decision-making.

Ideally you should be able to articulate your story clearly, ensure that it considers and aligns across all aspects of tax, and factor tax considerations into every stage of the growth of your fintech operations.

Contributors

Peter Dylewski
Global Financial Services Indirect Tax Leader, KPMG International, Associate Partner, KPMG in the UK

Burcin Nee
Global Financial Services Transfer Pricing Leader, KPMG International, Principal, KPMG in the US

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights

#fintechpulse

In H1'20, fintech investment in the **Americas** reached

$12.9B with 587 deals

Not for distribution in the USA.

As M&A plummets, VC fintech investment in the Americas on record pace

Fintech investment in the Americas dropped sharply in H1'20, driven primarily by a lack of large M&A deals. The largest M&A deals in H1'20 included a US$1.3 billion reverse merger by Open Lending and the US$700 million acquisition of AML/KYC due diligence company RDC by Moody's.

At mid-year, M&A investment was less than US$3 billion, while Q1'20 saw the lowest quarter of M&A investment since Q1'13. The pandemic likely had M&A investors holding back, rethinking valuations.

A great growth vehicle despite COVID-19

Fintech VC investment in the Americas remained strong (US$12.9 billion), on pace to exceed the 2019 record. The US accounted for most of this investment (US$8.6 billion) as US investors see fintech as a significant growth vehicle. The payments space was the hottest sector for VC investment, with Stripe raising US$850 million, Chime raising US$700 million and B2B payments company AvidXchange raising US$388 million.

Other late-stage companies across fintech verticals also raised large funding rounds, including wealthtech Robinhood (US$430 million) and cryptocurrency company Bakkt (US$300 million).

Maturing fintechs recognize that size matters — especially now

Given the growing fintech market in the US, it's becoming readily apparent that size matters when it comes to long-term success. In the current environment, the strongest fintechs will continue to get stronger while others struggle and run out of cash. Scale will be particularly important for fintechs in the digital banking and lending spaces as competition heats up.

In Q2'20, European challenger banks Revolut and N26 both entered the US market. Digital bank Chime's US$700 million raise is expected to help it better compete and grow. Lending company SoFi meanwhile made a big play to expand its capabilities, announcing its acquisition of white-label payments company Galileo for US$1.2 billion.

Lemonade's proceeds with strong IPO and reap the rewards

During H1'20, IPO exits in the fintech space, similar to IPO exits more broadly, were put on pause due to the impact of COVID-19 and its related uncertainty. Unicorn insurtech Lemonade, however, bucked expectations with its IPO in July.

After several years of dramatic growth, Lemonade had a very strong debut on the New York Stock Exchange, rising well above its initial offering price before pulling back somewhat in the month that followed. The successful IPO may well spur other fintechs to consider possible IPOs heading into H2'20.

Trends to watch for in the Americas

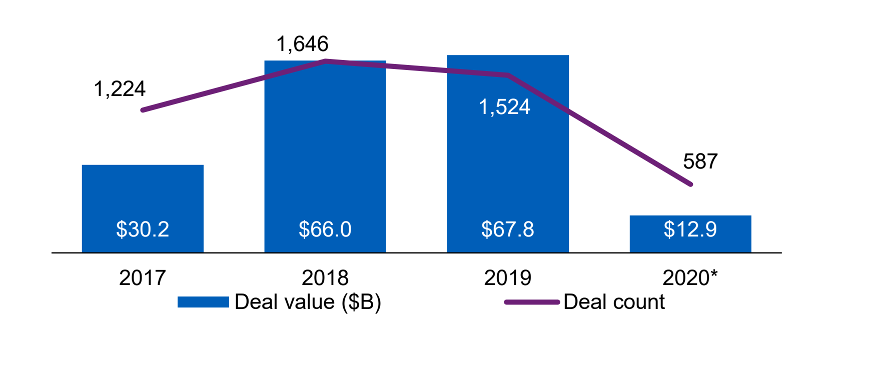
The biggest concern for many fintech investors in the Americas, particularly in the US, is the length of time it will take for the economy to recover from the impact of COVID-19. If the economy continues to stabilize, the second half of 2020 could see even stronger fintech investment. The economy, in conjunction with credit quality, could be a significant driver of fintech activity in the lending space.

Banks, many better capitalized than they were during the 2008–2009 financial crisis, will be important to watch as they could make some big investments in an effort to accelerate their digital agendas. PE money will likely also rise as investors look for opportunistic deals.

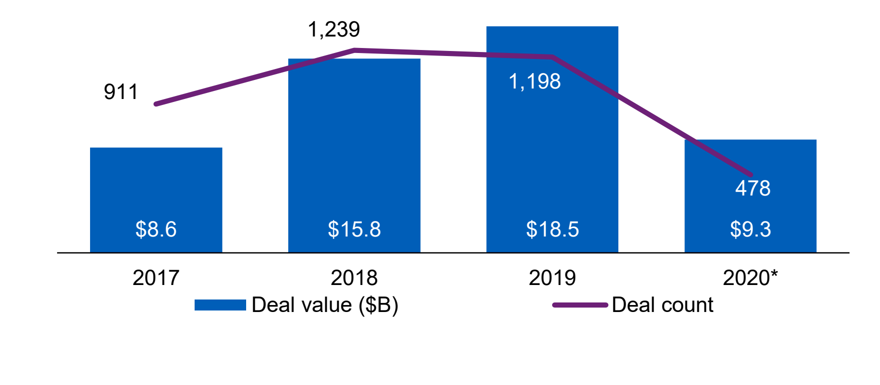
Regional insights — Americas

Acquirers and investors pull back but still spend up

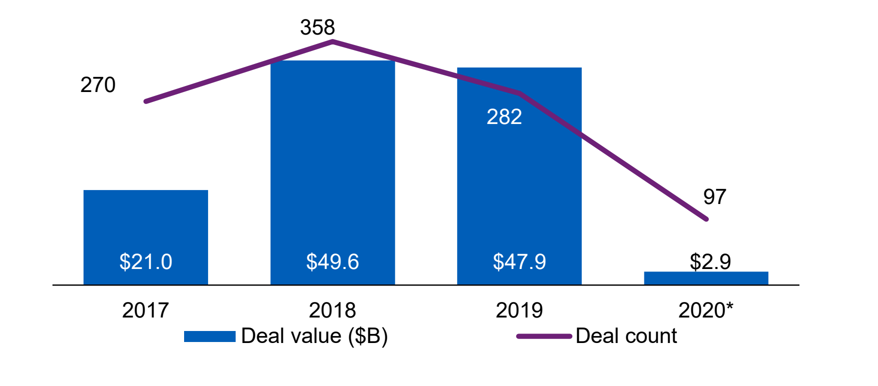
Total investment activity (VC, PE and M&A) in fintech in the Americas
2017–2020*



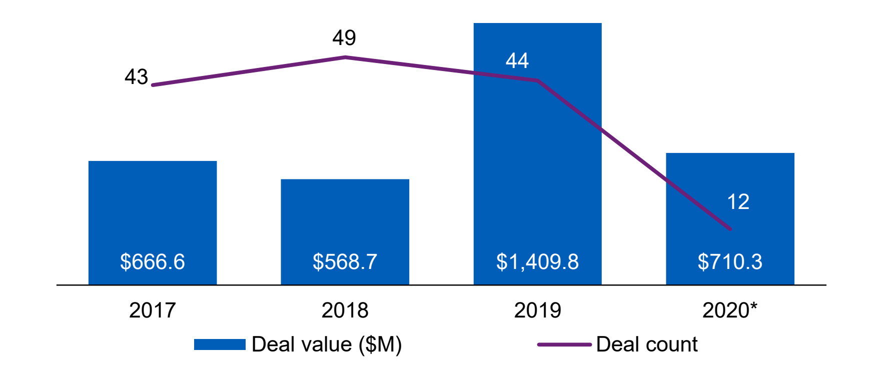
Venture activity in fintech in the Americas
2017–2020*



M&A activity in fintech in the Americas
2017–2020*



PE growth activity in fintech in the Americas
2017–2020*



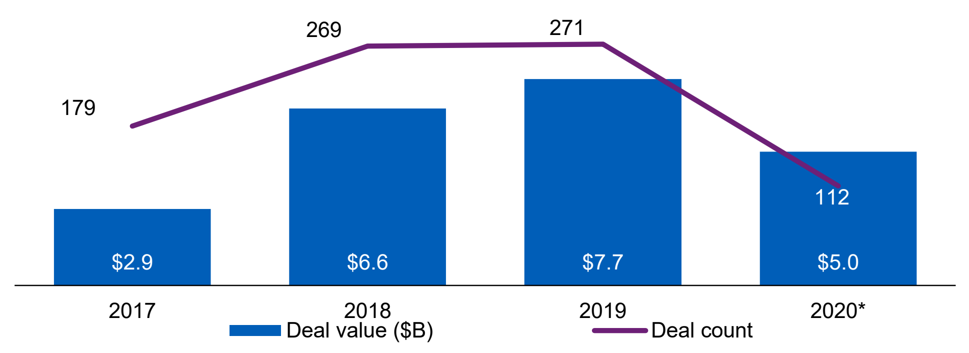
Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

VC remains strong

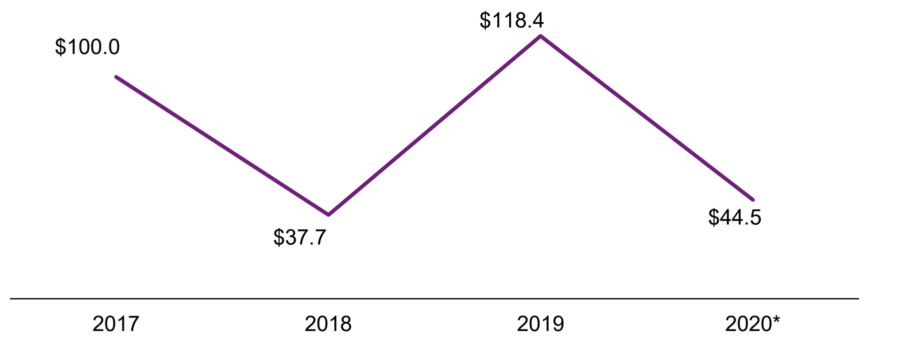
VC activity in fintech with corporate participation in the Americas
2017–2020*



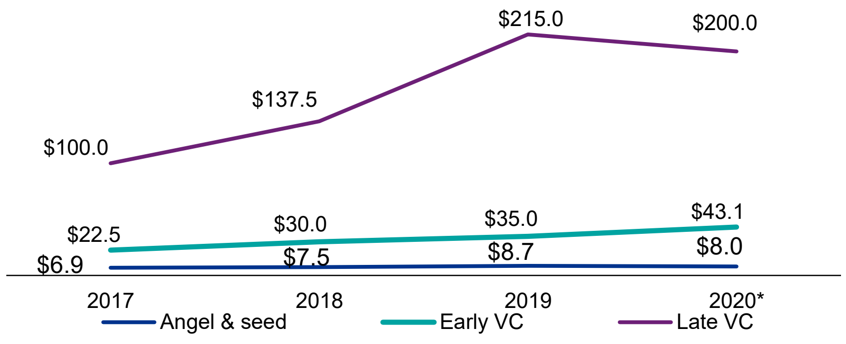
Venture remains somewhat insulated

An important contributor to the relative strength of venture financing trends was the role that corporates played, as they kept up a healthy pace of participation overall, especially in larger deals that pushed their tally of VC invested in associated rounds to a massive $5.0 billion. This is a testament to the imperatives that corporates view the fintech space as compelling, whether it be in gaining exposure to more mature businesses in the space or to position for strategic alliances down the line.

Median M&A size ($M) in fintech in the Americas
2017–2020*



Median pre-money valuations ($M) by stage in fintech in the Americas
2017–2020*



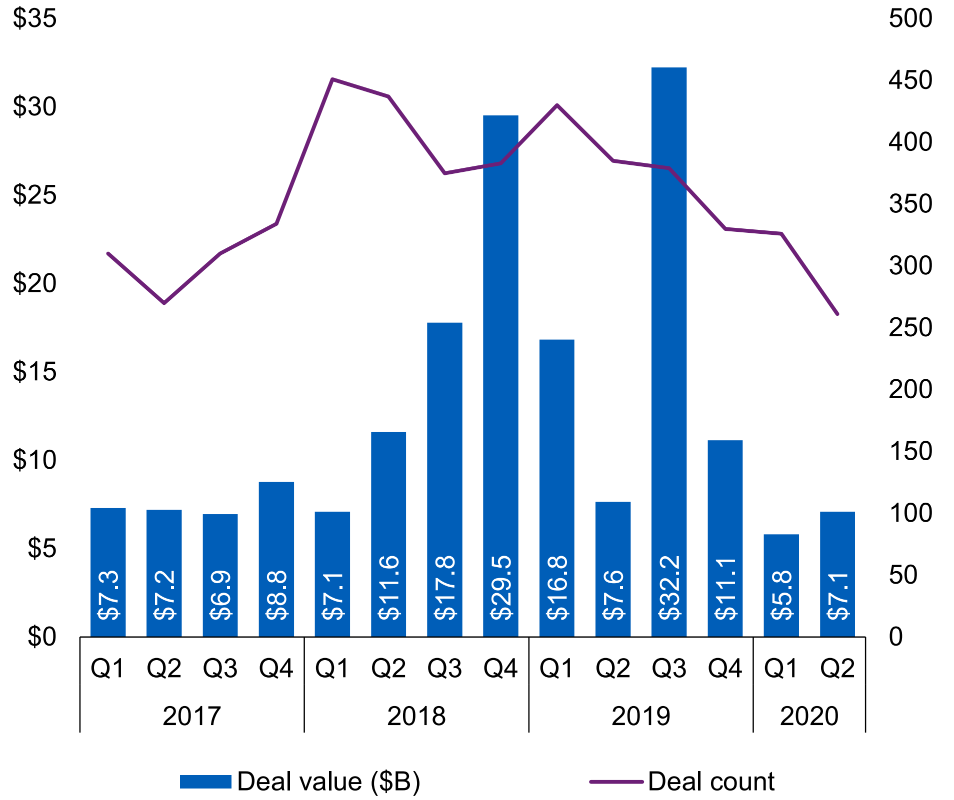
Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

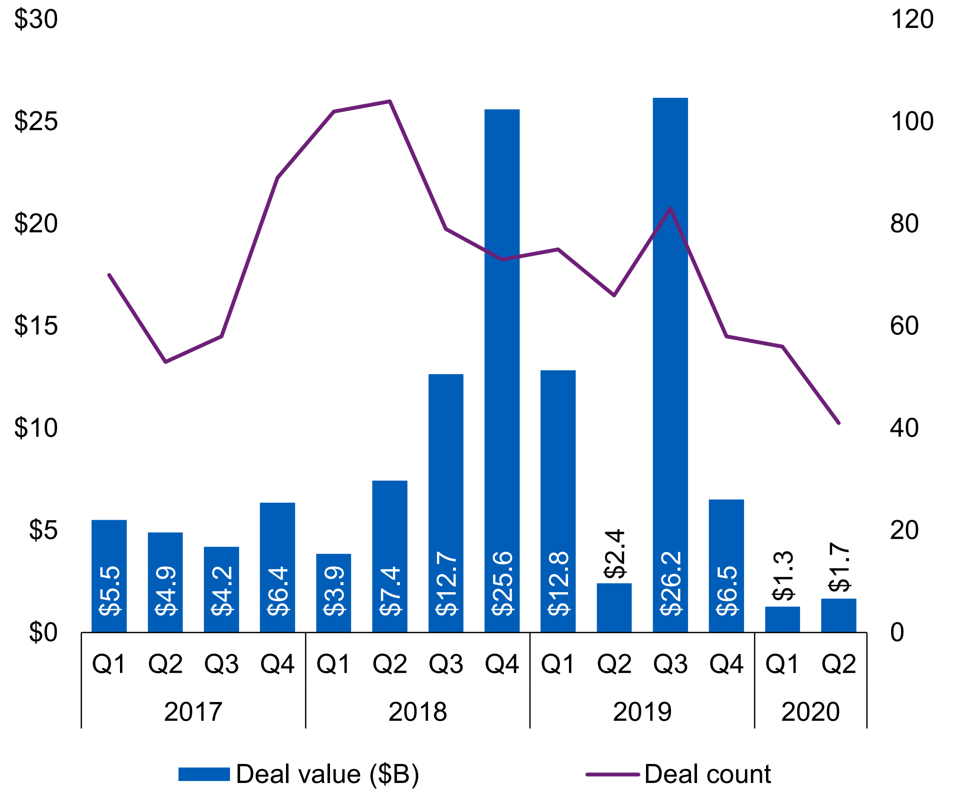
Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Capital still flows even as volume diminishes

Total investment activity (VC, PE, M&A) in fintech in the Americas
2017–Q2 2020



M&A activity in fintech in the Americas
2017–Q2 2020



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

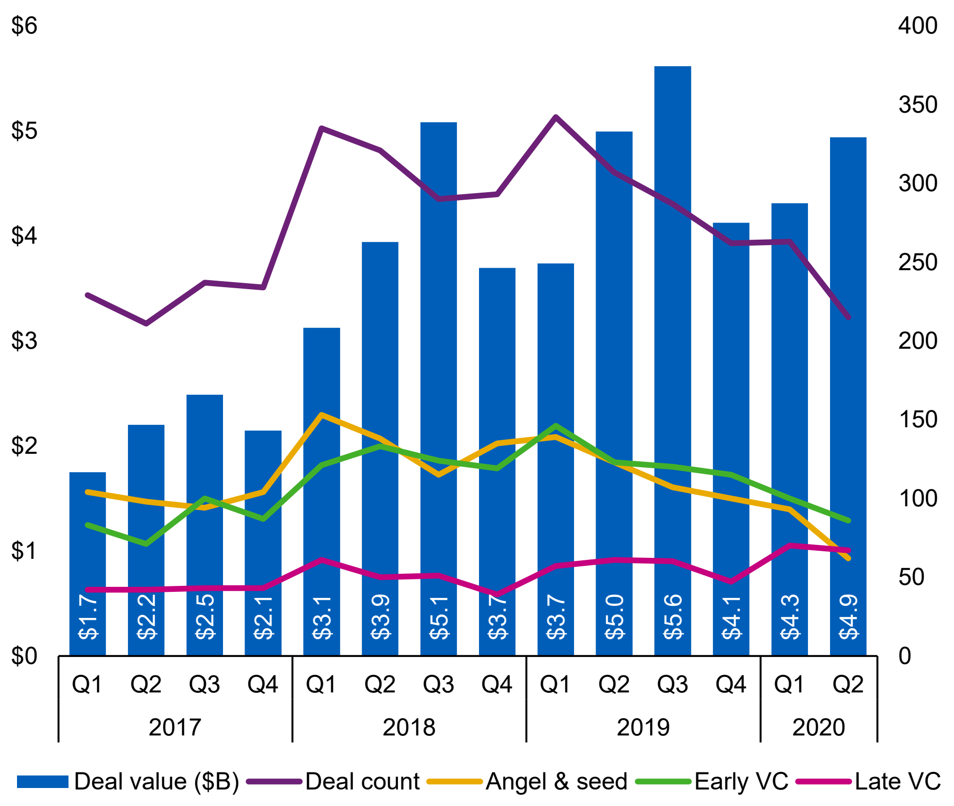
Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

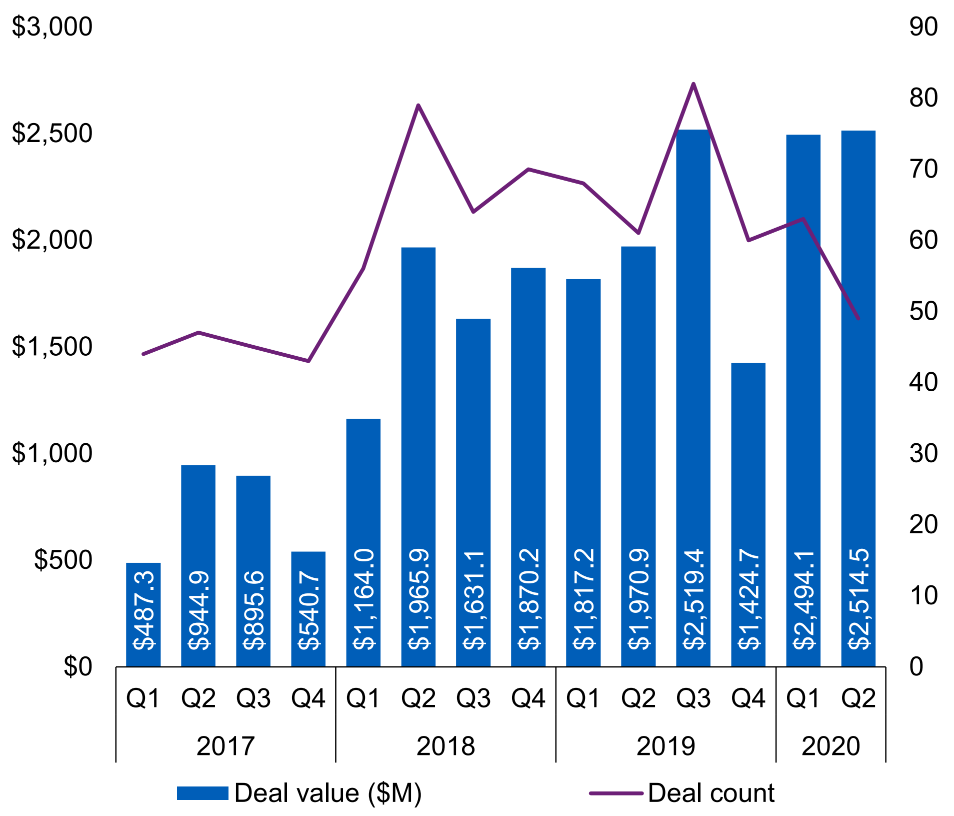
Regional insights — Americas

VCs are still investing large sums

Venture activity in fintech in the Americas
2017–Q2 2020



VC activity in fintech with corporate participation in the Americas
2017–Q2 2020

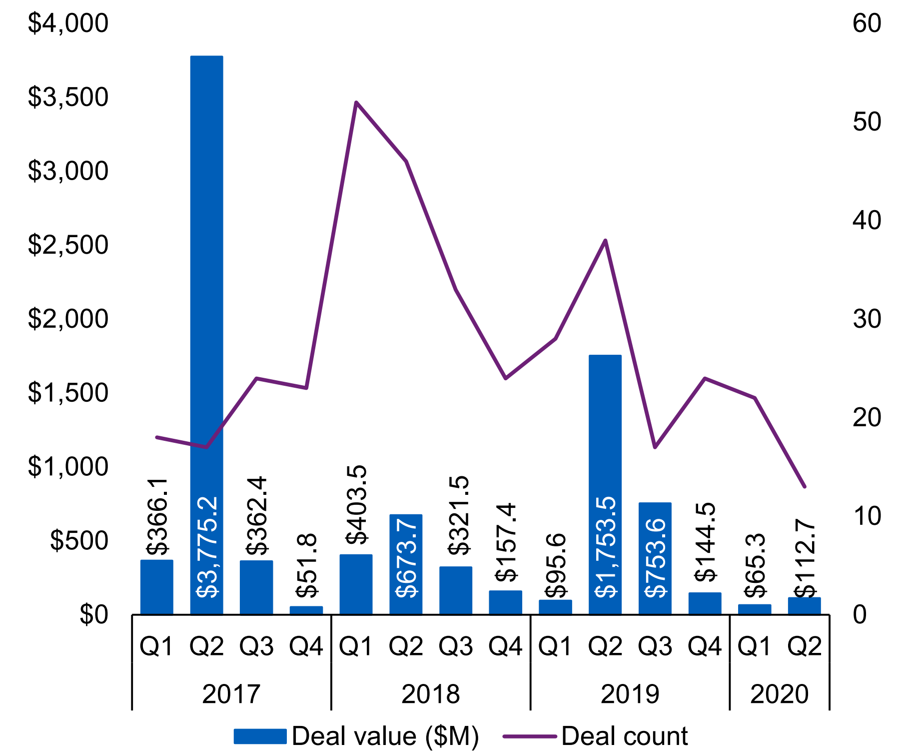


Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

Canadian financial institutions driven to reimagine the future

Total fintech investment activity (VC, PE and M&A) in Canada 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Fintech deals and investment in Canada dropped dramatically in H1'20, as deals became more difficult to complete due to COVID-19. The pandemic, however, also drove fintech interest as the use of digital technologies shot up significantly, both by consumers and by financial institutions working to enable their employees to work from home. This shift, which moved some digital agendas forward by years in a matter of weeks, is expected to continue to catalyze interest in fintech.

As banks and other Canadian financial institutions reimagine the future of their operations in a post-COVID world, it is likely that corporate VC funds will flow. VC investors in Canada will likely also increase their investments as they look to capitalize on the increasing interest in fintech.

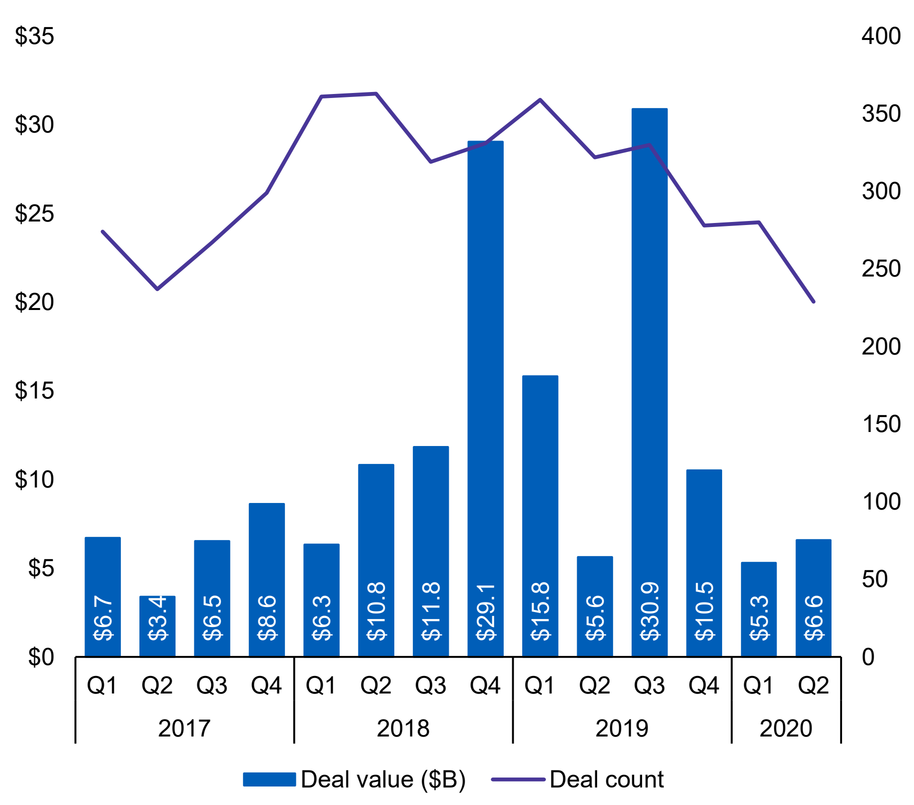
> "In Canada, everyone is climbing out of the immediate COVID-19 exigencies and focusing on what the new normal will mean for things like distribution channels, digital, the need for cost reduction and what new models for their workforces will look like. And, of course, looking at the scenarios for the next 18 months around credit losses.
>
> The financial services industry, including regulators and lawmakers, is going to remain focused on these immediate questions for a while. But, where there are fintechs that can help fill gaps that maybe weren't noticed in the past around digital or payments or regtech solutions, deals will still get done. They just may take longer to consummate."

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

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

US corporates embrace fintech as pace of disruption accelerates

Total fintech investment activity (VC, PE and M&A) in the US 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Corporate fintech investment in the US reached a record of US$2.4 billion in Q1'20, almost matching it again in Q2'20. Corporate investment remained high despite the uncertainty, due in part, to the predominantly strategic nature of the investments.

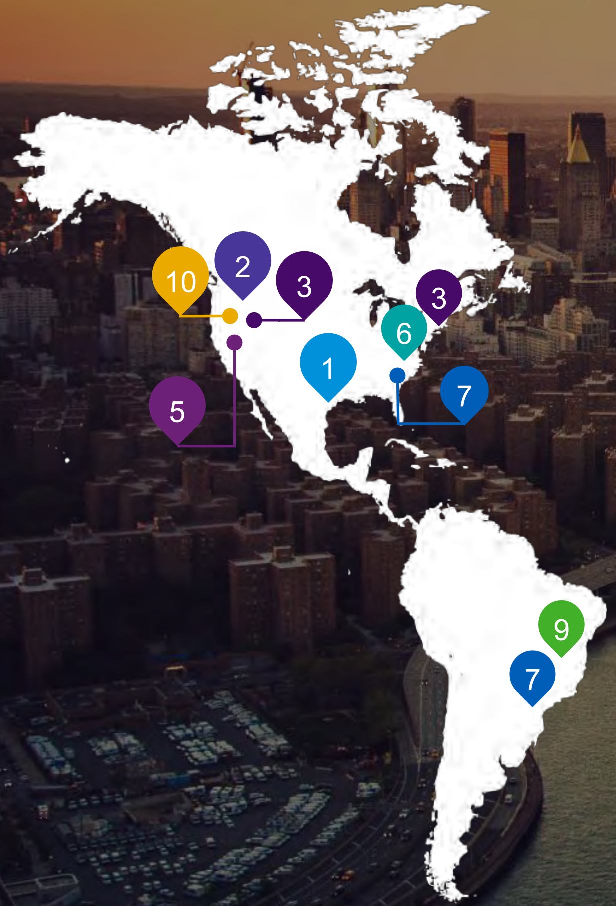
US corporates see fintechs as a way to augment their capabilities and support their business strategies, making the business case for investments strong even during a pandemic. The acceleration of digital trends and the business model disruption caused by COVID-19 will likely keep corporate investment high into H2'20 as less digitally-enabled corporates increase investments.

> "In the US, COVID-19 has put uncertainty into what valuations should be, so we'll probably continue to see a dip until we get a better sense of the extent and timing of the recovery.
>
> However, the mature fintechs, like those in the payments space, have already started to show signs of recovery in May and June compared to their performance in March and April. I think we'll continue to see those fintechs performing well."

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

Americas

Top 10 fintech deals in the Americas in H1 2020



1. **Open Lending** — $1.3B, Austin, US — Lending — *M&A*
2. **Stripe** — $850M, San Francisco, US — Payments/transactions — *Late-stage VC*
3. **RDC** — $700M, King of Prussia, US — Regtech — *M&A*
3. **Chime (Financial Software)** — $700M, San Francisco, US — Payments/transactions — *Series E*
5. **Robinhood** — $430.3M, Menlo Park, US — Wealthtech — *Series F*
6. **Avidxchange** — $388M, Charlotte, US — Regtech — *Series F*
7. **Nubank** — $300M, Sao Paulo, Brazil — Payments/transactions — Late-stage VC
7. **Bakkt** — $300M, Atlanta, US — Blockchain/cryptocurrency — Series B
9. **BBVA-Paraguay Business** — $263.2M, Asuncion, Paraguay — Lending — *M&A*
10. **Varo** — $241M, San Francisco, US — Payments/transactions — *M&A*

Source: Pulse of Fintech 2020, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

#fintechpulse

In H1'20, investment in fintech companies in **Europe, Middle East and Africa** (EMEA) recorded

$4.6B with 391 deals

Europe records second-highest quarter of VC fintech investment in Q2'20 and Middle East sprouting new early-stage fintech hubs

Despite a decline in M&A activity that pulled overall fintech investment in Europe down significantly in H1’20, VC investment continued to be very strong. Q2’20 saw the second-highest quarter of VC investment in fintech after Q1’20.

Several jurisdictions within the Middle East have continued to work to become fintech hubs and fintech investment in the region was focused primarily on early-stage deals in H1’20, although Israel-based wealth manager Pagaya raised US$102 million Series D around in late June.

Challenger banks raise big deals across Europe

During H1’20, challenger banks attracted five of the 10 largest deals in Europe, including N26 (Germany), Revolut (UK), Klarna (Sweden), Starling Bank (UK) and Qonto (France). The deals reflect the growing focus on challenger banks as they work to scale and become competitive, not only in Europe, but globally. In H1’20, Revolut and N26 both joined Klarna in the US market.

COVID-19 a big roadblock, yet also an opportunity

COVID-19 is a major challenge for fintechs across Europe, particularly early-stage companies with less liquidity. New entrepreneurs and startups are also facing challenges given the typical avenues for making connections are limited. The pandemic, however, is also creating opportunities due to its impact on digital customer behaviors, including a major shift away from cash and an uptick in the demand for digital tools, products and services. Well-capitalized fintechs and those able to respond quickly to the shifting needs of customers could see strong growth.

Open banking in Europe taking more time than hoped

While the innovation expected from open banking is taking longer to materialize than expected, Europe continued to move forward with its fintech agenda. During H1’20, the European Commission held a consultation on a new digital finance strategy and fintech action plan for Europe to guide its activities over the next 5 years[13].

COVID-19 spurring digital acceleration across the Middle East

COVID-19 has accelerated the acceptance of digital business models in a region that has a very strong tradition of in person, relationship-based service provision. This is driving traditional banks in the region to increasingly consider partnerships and alliances with fintech companies able to help them with their accelerated digital journey.

Trends to watch for in EMEA

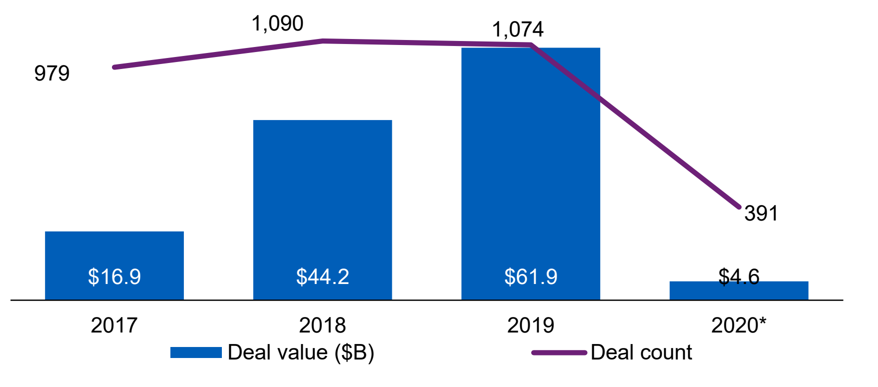
The next 6 months could be rocky for fintech investment in Europe depending on the length of time it takes to recover from COVID-19. The challenger banking space will continue to be hot as digital banks continue to grow and enter new markets. Tokenized assets will one key area to watch over the next few quarters.

The fintech market in the Middle East is expected to expand and diversify for the foreseeable future, key jurisdictions all investing in fintech ecosystems. As fintech hubs slowly mature, the region will likely see increasing investment as early-stage fintechs grow.

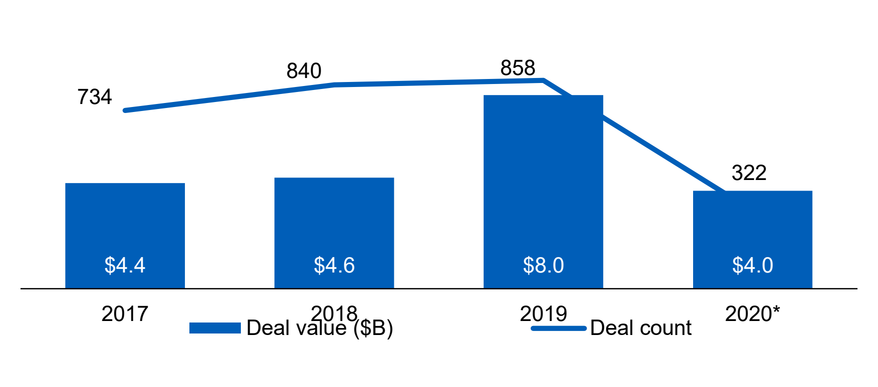
[13] https://ec.europa.eu/info/consultations/finance-2020-digital-finance-strategy_en

Q2'20 hits near-record tally for deal value

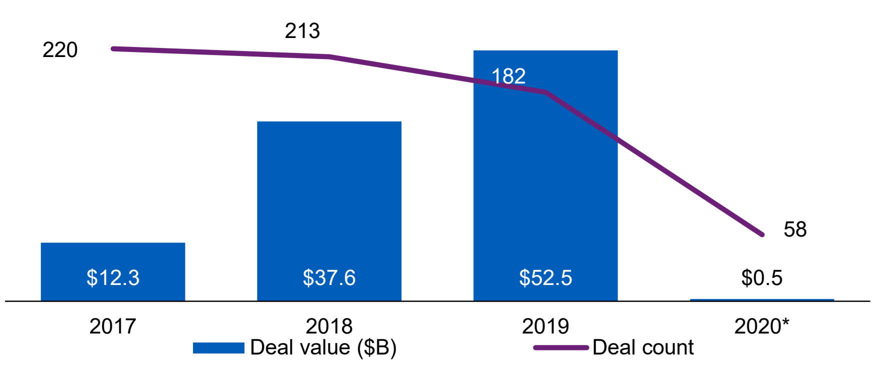
Total investment activity (VC, PE and M&A) in fintech in EMEA
2017–2020*



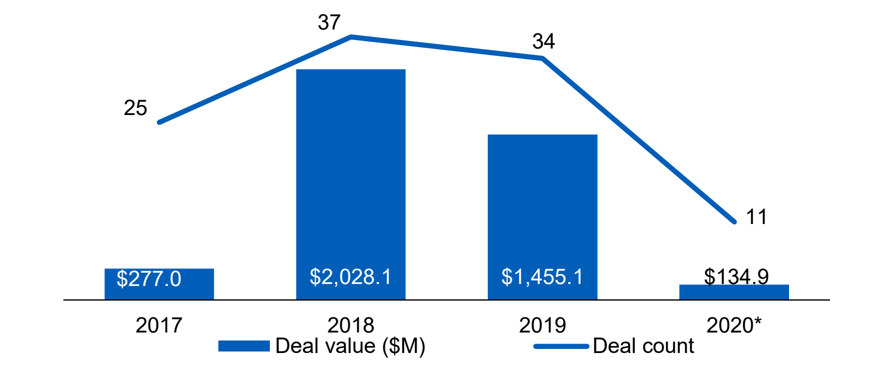
Venture activity in fintech in EMEA
2017–2020*



M&A activity in fintech in EMEA
2017–2020*



PE growth activity in fintech in EMEA
2017–2020*

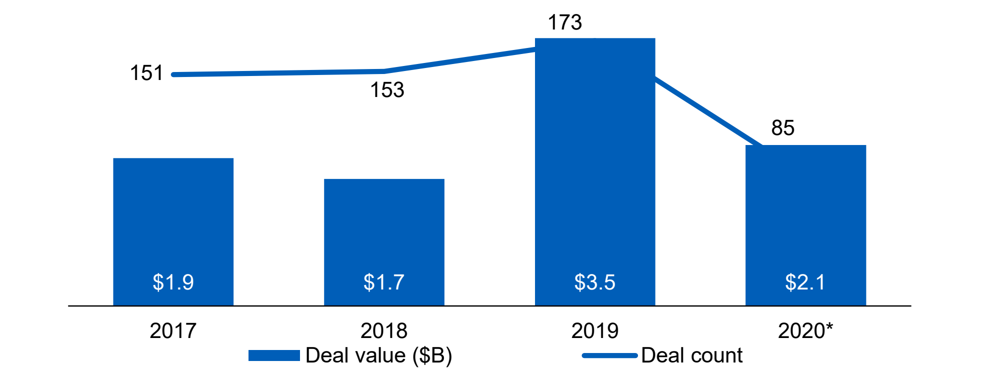


Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

Late-stage valuations remain unstoppable

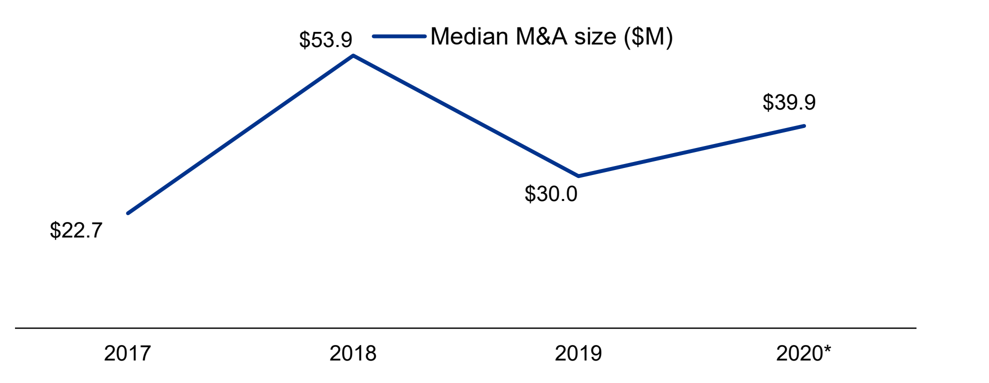
VC activity in fintech with corporate participation in EMEA
2017–2020*



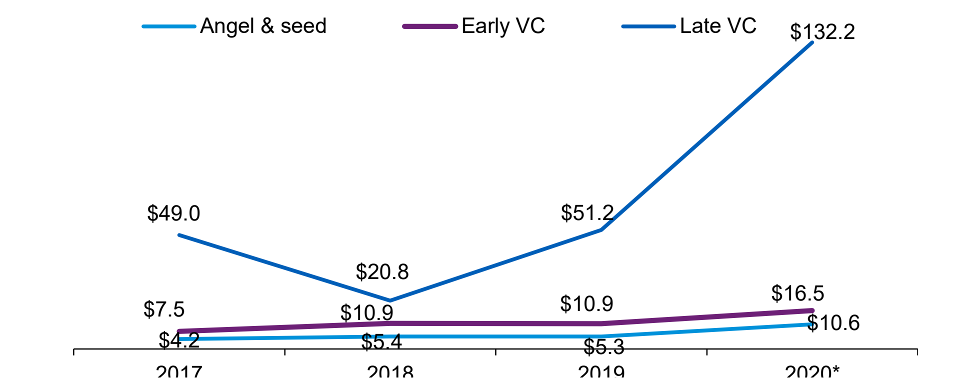
Dry powder pressure and competition for deals keeps median financings, valuations and more high

Even though multiple startups are facing significant pressures, the best-capitalized companies continue to draw plenty of capital from investors that have mandates to keep disbursing the record sums of dry powder that the venture industry amassed over the past few years. Fintech is no exception, hence the indomitable tally of valuations at the late stage remaining undaunted thus far. It remains to be seen if even that tally shifts due to the economic ramifications of the COVID-19 pandemic, going forward.

Median M&A size ($M) in fintech in EMEA
2017–2020*



Median pre-money valuations ($M) by stage in fintech in EMEA
2017–2020*



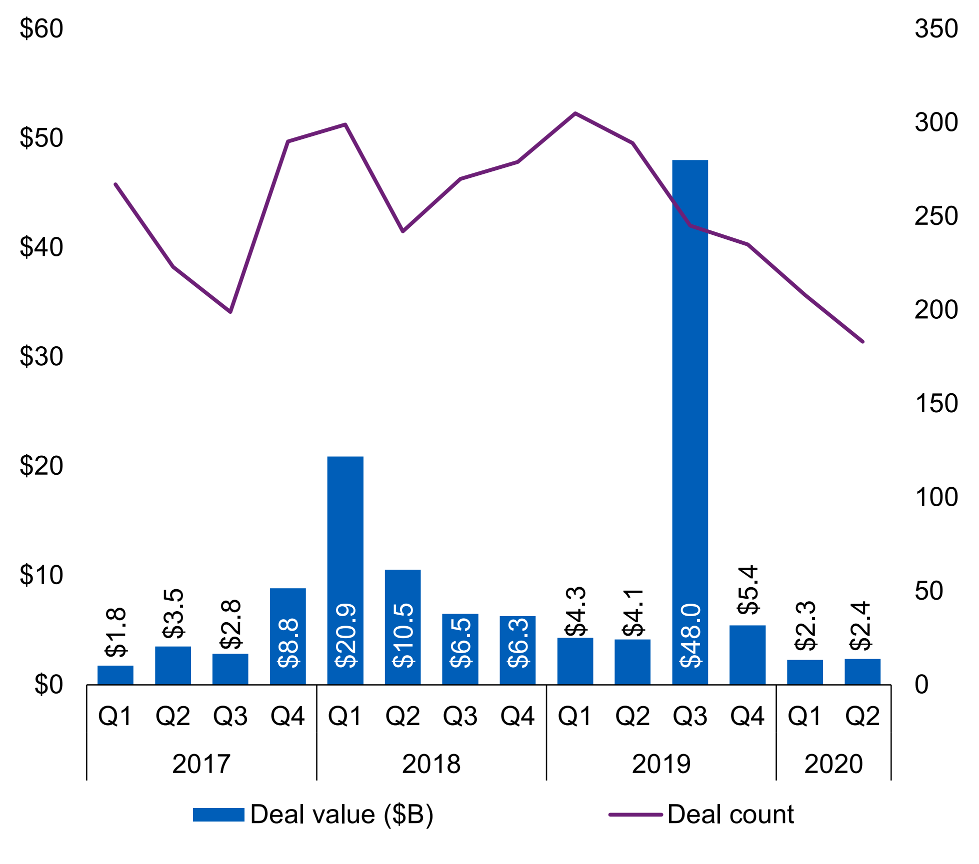
Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

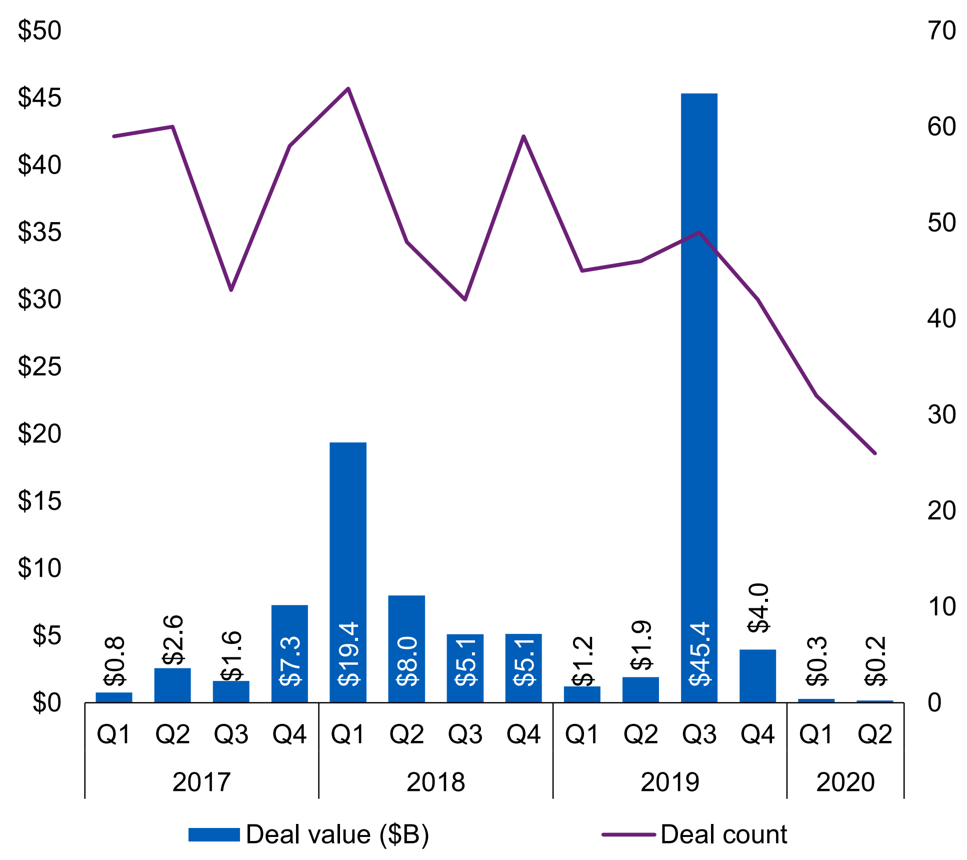
Regional insights — EMEA

Volume subsides again

Total investment activity (VC, PE and M&A) in fintech in EMEA
2017–2020*



M&A activity in fintech in EMEA
2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

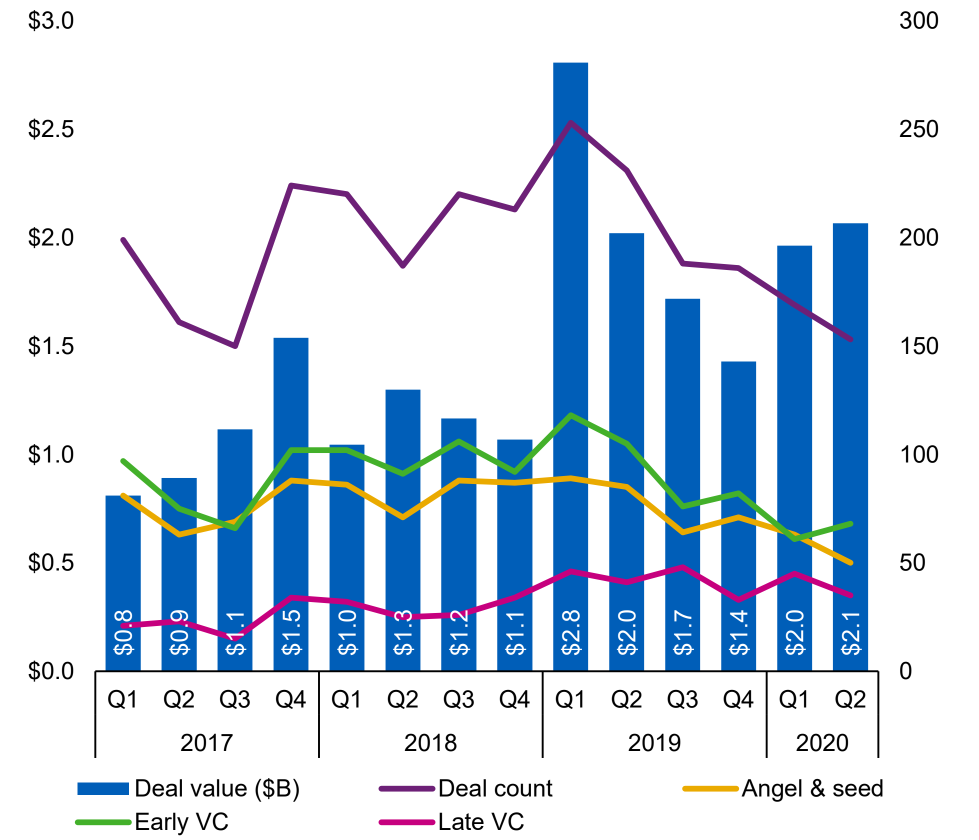
Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

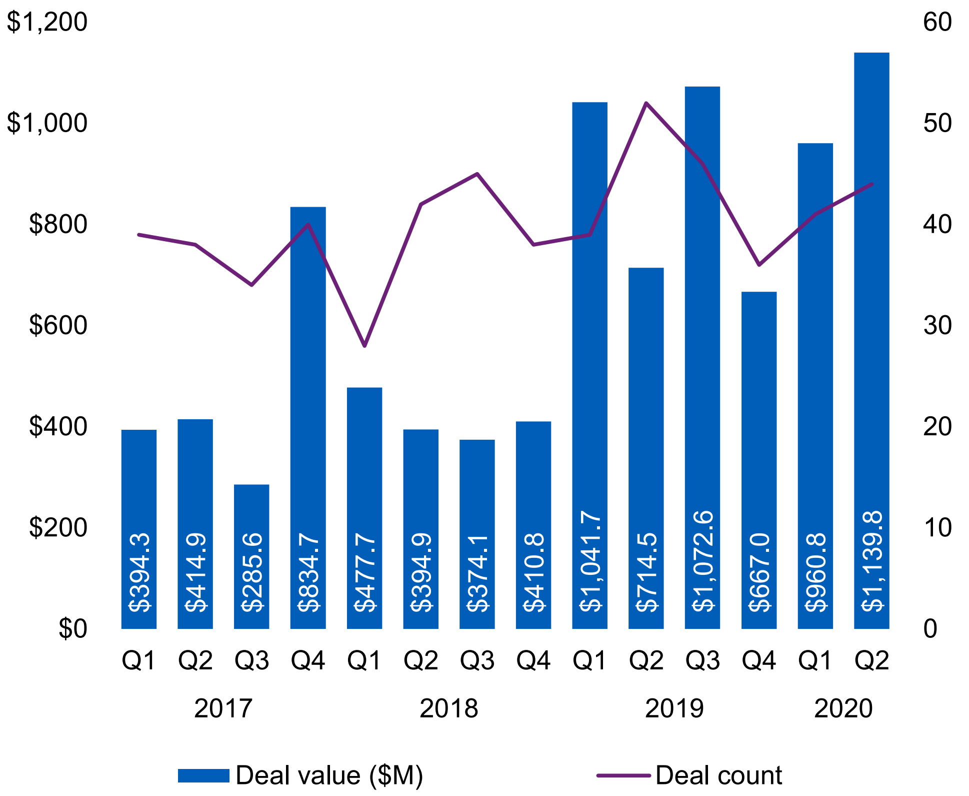
Regional insights — EMEA

Corporates engage at a record sum

Venture activity in fintech in EMEA
2017–2020*



VC activity in fintech with corporate participation in EMEA
2017–2020*

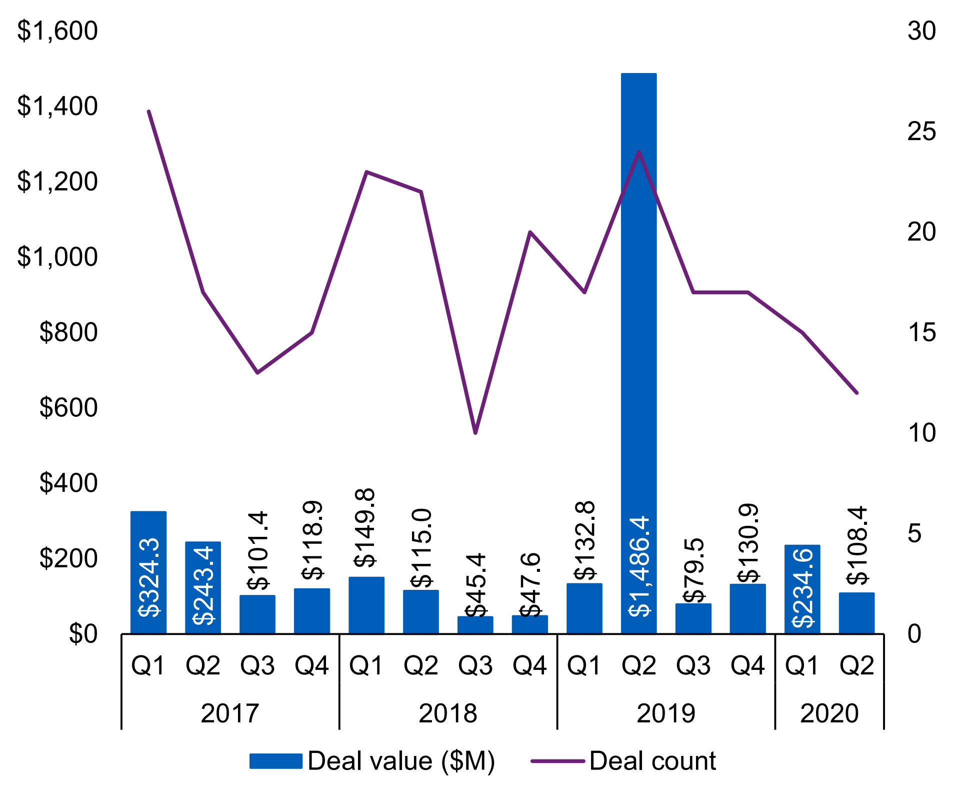


Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

France's fintech gains attractiveness in Europe with the French government support

Total fintech investment activity (VC, PE and M&A) in France 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

The fintech investment environment in France remained strong in H1'20, despite a sharp drop in deals activity brought on by COVID-19. While challenger banks, lending, regtech, payments and business platforms (Younited Credit, October, alan, Wynd, Swile, Lydia, iBanFirst…) remains the most active fintech space in France, other subsectors are gaining more attractiveness (Insurtech, Open Banking, AI) with a strong focus on new B2B2C business models. Challenger business bank Qonto raised $115 million Series C funding round led by Tencent and DST Global but the big banks are also becoming more focused on this next generation of Banks (Société Générale acquired freelancer challenger bank Shine)

The French government has also identified fintech as a key industry to support the economic stimulus plan (French Tech Visa, R&D Tax reliefs, launch of the Next 40 index, French Tech Bridge with COVID-19 funding measures). The State will also maintain through Bpifrance (Banque publique d'investissement) its support for innovative companies with nearly c. £1,2 billion in innovation aid planned for 2020 (grants, repayable, advances, loans, etc.).

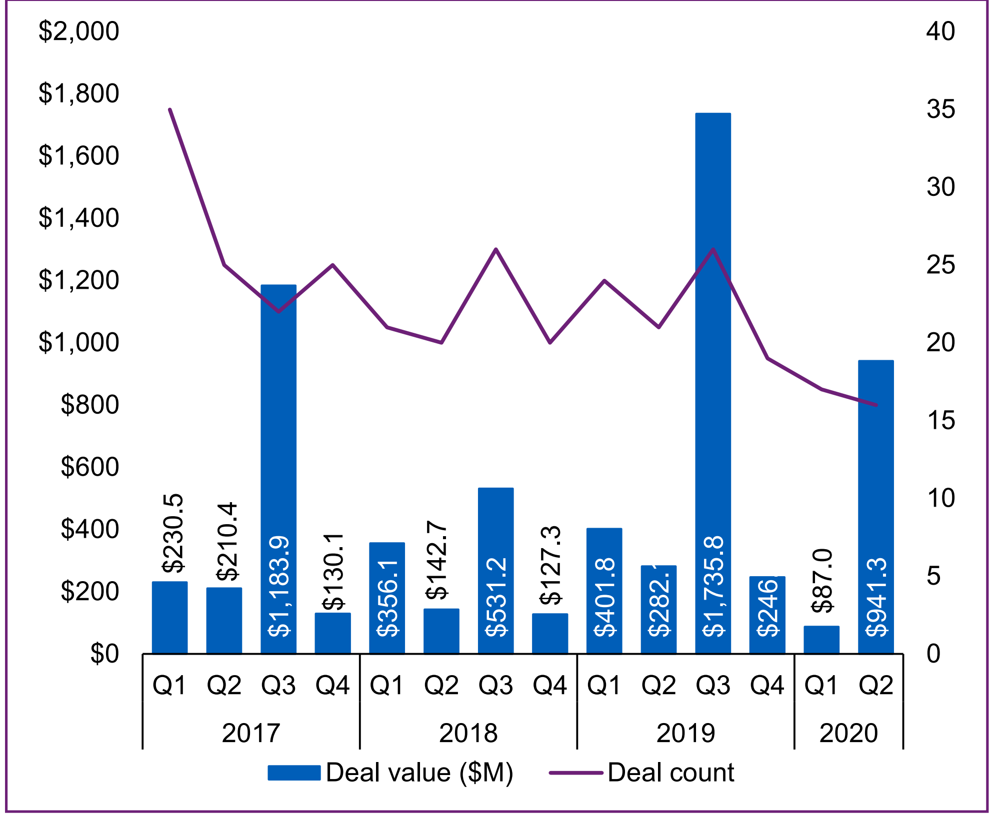
> "Pre-COVID-19, fintech-driven financial services has been attracting significant investments. COVID-19 has in fact fast tracked the digital economy and significant investments are being made now by established banks and insurance companies, which can also lead to acquisition and more investments from investors. A French fintech ecosystem will also emerge to meet the growing demand for robust ESG data and we will also start to see some consolidations. France is now well-positioned to be an emerging fintech hub in Europe with new collaboration between the State, incumbents and global players."

Stephane Dehaies
Partner and Fintech Leader, KPMG in France

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

COVID-19 shifting banking industry in Germany — and view of fintech

Total fintech investment activity (VC, PE and M&A) in Germany 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Although Q1'20 was soft, fintech investment in Germany was relatively resilient overall in H1'20, led by the US$570 million raise by N26, a US$73 million raise by Trade Republic and a US$65 million raise by Solarisbank.

COVID-19 is acting as a positive driver for many fintechs as it is shifting people's views of digital banking. It is also driving interest in the B2B space as corporates look to quickly improve their digital operations. Over the medium term, these shifts could help fintechs become more sustainable and improve their paths to profitability.

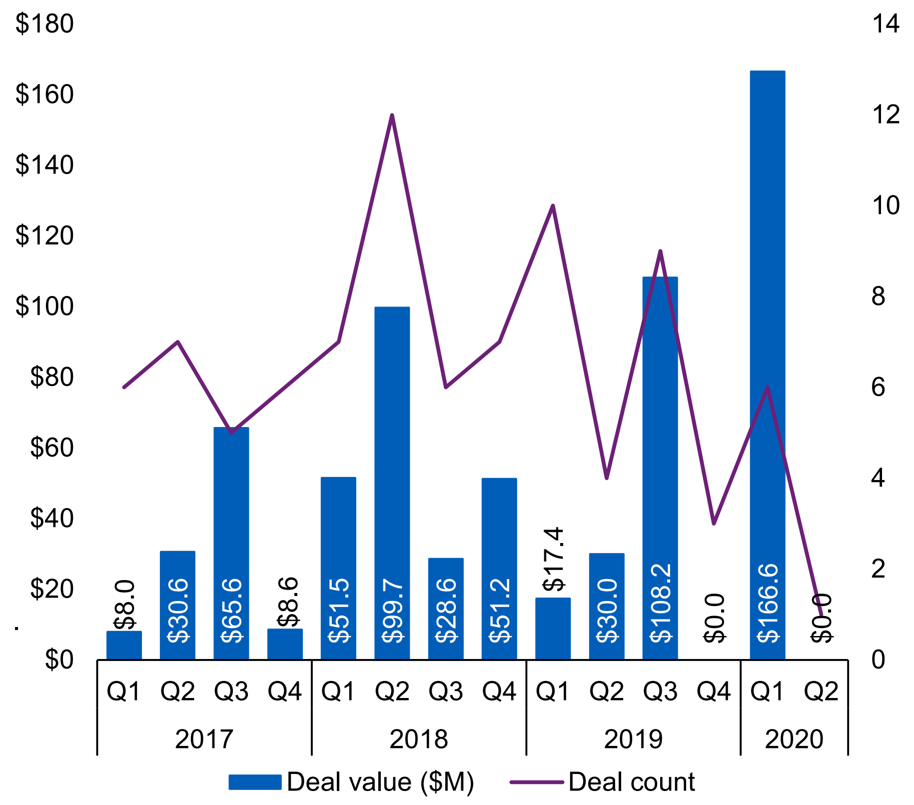
> "In Germany, we are seeing that fintech is a proven and sustainable business model and that the strong level of investment will survive through the crisis or even become stronger.
>
> At the same time, fintechs with a high burn rate that have yet to achieve reasonable levels of revenue will be severely challenged. Investors are focusing on safer bets right now, so early-stage and less well-positioned companies could struggle to get the funding they need to survive."

Bernd Oppold
Partner, Advisory, KPMG in Germany

Not for distribution in the USA.

Ireland gains attractiveness in wake of Brexit

Total investment activity (VC, PE and M&A) in fintech in Ireland 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

H1'20 was exciting for fintech in Ireland, with the US$162 million acquisition of Irish-founded Prepaid Financial Services (PFS) by Australia's EML Payments (note that the company has its head office in London but a joint front office in Dublin, hence its deal value ascribed to UK funding aggregates), the US$83 million acquisition of Payzone Ireland and a US$80 million funding round by Fernego. Mastercard also announced plans for a technology hub in Dublin.

Ireland also continued to gain traction from UK-based fintechs such as Starling Bank and Revolut, looking to create a Brexit-hedge given the 12-month lead-in period will expire in January 2021.

Ireland is expected to remain hot into H2'20 as UK and global fintechs work to ensure they are able to service their customers across Europe.

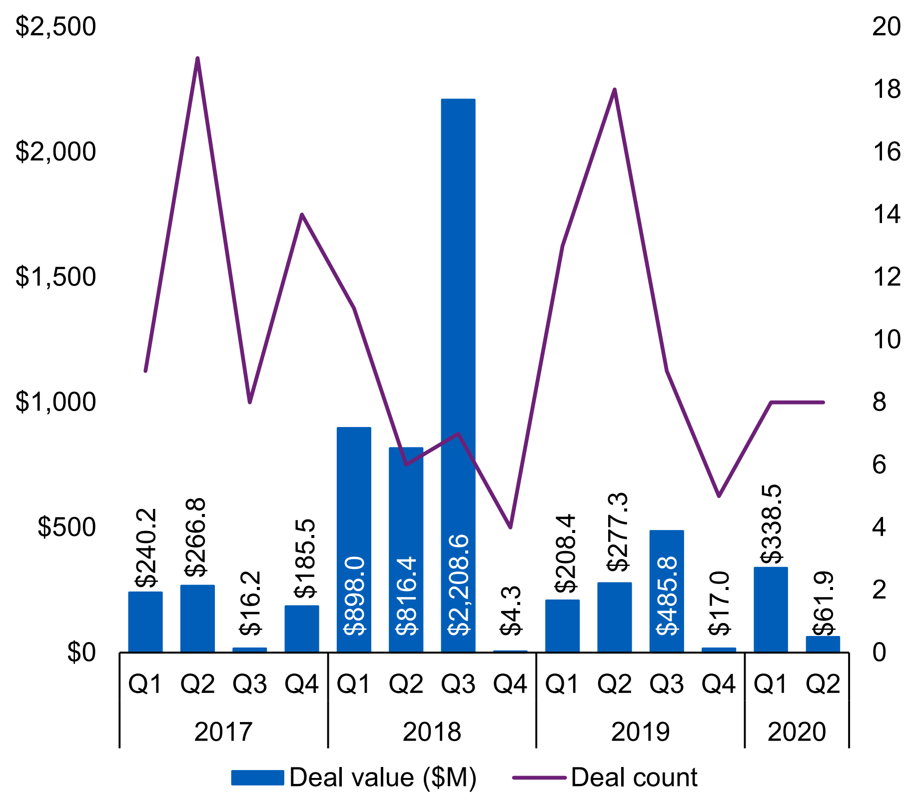
> "COVID-19 has certainly accelerated the move to adopt digital payment methods. At the start of lockdown, the Irish banks moved swiftly to increase the tap-and-go limit on debit and credit cards, making it easier to tap a card rather than use cash. And the word Revolut has almost become a verb. 'Just Revolut me' has become a familiar expression to instruct the transfer of funds. Digital payment methods are now mainstream. It was starting to happen prior to H1'20, but COVID-19 has really accelerated the trend."

Anna Scally
Partner and Fintech Leader, KPMG in Ireland

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Sweden's fintech dominance continues in Nordic region

Total fintech investment activity (VC, PE and M&A) in Sweden 2017–2020*



The fintech investment environment in Sweden remained strong in H1'20, despite a sharp drop in deals activity brought on by COVID-19.

A US$200 million raise by digital bank Klarna and a US$100 million raise by API-focused Tink in January helped offset very slow activity in March and April. While payments remains the most active fintech space both in Sweden and the Nordic region, other subsectors are gaining more attention, including insurtech and regtech.

In May, digital loan refinancing company Anyfin raised US$30 million. The big banks in Sweden are also becoming more focused on fintech, particularly regtech after one bank was given a severe fine in H2'20 for not being in compliance with anti-money laundering requirements.

> "We live in a low-interest market and there is a lot of capital that has to go somewhere, so there is still a strong appetite for fintech investment in Sweden.
>
> While there is a lot of uncertainty around COVID-19, fintech is showing a lot of resilience as a sector. There's a lot of interest, particularly from established, traditional financial institutions that are still looking to invest in these kinds of solutions."

Mårten Asplund
Head of Financial Services, KPMG in Sweden

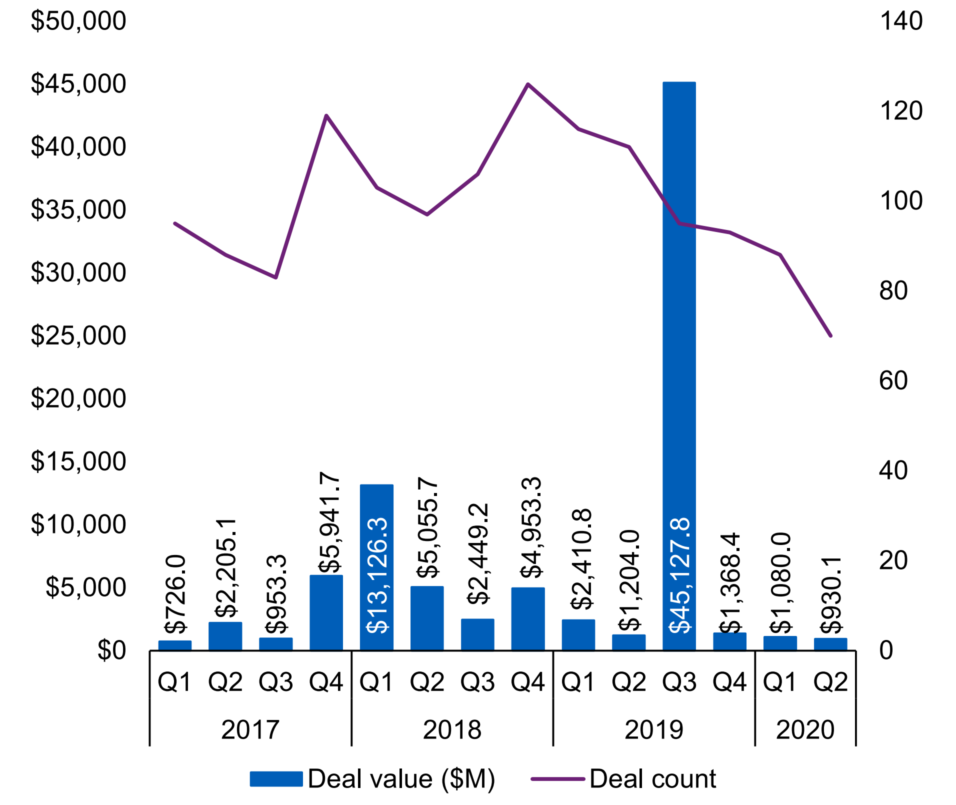
Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

UK corporates doubling down on fintech funds

Total fintech investment activity (VC, PE and M&A) in the UK 2017–2020*



The UK saw a solid amount of fintech funding in H1'20 with several US$100 million+ megadeals (e.g., Revolut, Checkout.com, Starling Bank and Currency Cloud).

Corporate investment is expected to become a big focus in the UK, given that many financial services companies are looking to double down on their fintech funds given the major digital dislocation in the market due to COVID-19. Over the long-term, the impact of the pandemic could be beneficial in terms of accelerating digital change initiatives amongst corporates.

> "Current events are driving a real digital dislocation in the financial services market. Certainly, here in the UK, legacy firms are realizing that they need to become a lot more progressive in terms of how they invest in new capabilities. The corporates will likely come out of this a lot stronger and with a much firmer commitment to fintech investment."

Anton Ruddenklau
Global Co-Leader of Fintech, KPMG International,
Partner, Head of Digital & Innovation, KPMG in the UK

Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Open banking in Israel delayed by COVID-19, but remains a priority

Initially, Israel targeted December 2020 for its open banking regime. Due to COVID-19, the target date has been moved to March 2021. The shift to open banking could cause a shakeup in banking given the sector is currently dominated by five banks. Open banking is also expected to spur innovation investment by these banks so they can remain competitive. Some banks are already looking at where to invest, how to use APIs and what partners to work with in order to improve customer services.

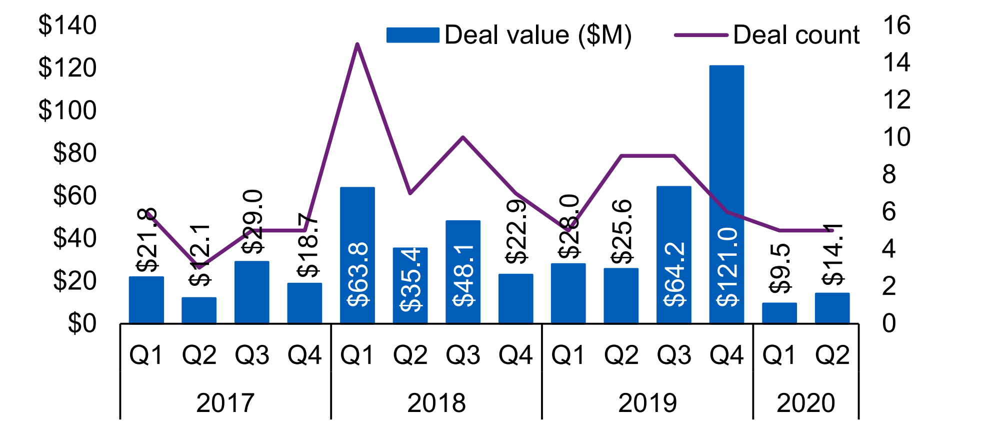
New digital bank in Israel still targeting 2021 launch

In H2'19, the Bank of Israel issued its first new banking license in 40 years for the establishment of a new digital bank. The First Digital Bank (in setup), is helmed by one of Mobileye's cofounders, Amnon Shashua. The standalone digital bank would be unique given it would use an outsourced IT core banking platform. Despite COVID-19 challenges, the new bank is expected to launch in H2'21.

As online transactions skyrocket, Israel fraud prevention companies could see increased interest

With the acceleration of digital trends, there will likely be an uptick in interest in Israeli companies like Forter and Theta Ray, that are focused on cybersecurity and fraud prevention. Israel could also see interest in its payments-specific security firms, like Paygilant, start to grow. The Government of Israel is working to spur innovation at the intersection of financial technologies and cybersecurity. In May, it partnered with Mastercard and Enel X to announce the creation of a fintech-specific cybersecurity innovation lab.

Total investment activity (VC, PE and M&A) in fintech in Israel
2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

> "The vision of Open Banking is to turn the financial industry into plug-and-play, allowing customers to own their data and the ability to choose how and when to use it. However there are still obstacles in the way, such as privacy, cyber, technology barriers and legal issues, that need to be solved in order for this vision to come true. We hope that the fintech industry will have the long breath needed make this change together with the financial services industry."

Illanit Adesman
Partner, Financial Risk Management,
KPMG in Israel

Saudi Arabia encouraging development of fintech ecosystems

As part of its Vision 2030 strategy, Saudi Arabia established the Fintech Saudi initiative to support the development of a fintech ecosystem focused on enhancing financial inclusion and encouraging digital financial services.

As a part of this, the Saudi Arabian Monetary Authority (SAMA) launched a fintech regulatory sandbox to support emerging fintechs. These initiatives have helped grow a number of fintechs, including Hala (formerly Halalah), STC Pay and Geidea. In H2’20, SAMA also approved new payments licenses for e-wallet providers Bayan Pay and Hala[14].

Diversity of early-stage fintechs in Saudi Arabia likely to boost investment over time

While payments is a key focus for fintech development, Saudi Arabia has also seen fintechs sprouting in other sectors, including lending (e.g., Scopeer, Manafa Capital), insurtech (e.g., Tameeni, Bcare), wealthtech (e.g., Wahed Capital, Haseed Invest), personal finance (e.g., Malem Financing, Sulfah) and investment banking (e.g. Smartstream).

Given the mix of sectors and strong government support, it is expected that fintech investment will grow as the ecosystem matures.

> “Between 2017 and 2019, the value of fintech transactions increased at a rate of over 18 percent each year, reaching US$20 billion in 2019. Two-third of the investments in the field of payments — in April 2020, the number of smart phone payment transactions, increased by 352 percent compared to the year before.
>
> The central bank is poised to develop the local fintech ecosystem through initiatives such as Fintech Saudi and the regulatory Sandbox, and works with other stakeholders including the capital markets authority to drive growth. Through this close collaboration of regulators, incumbents and newcomers in the financial sector, Saudi Arabia is sending a strong signal to the world about its ambitions in the fintech arena. As digital transformation continues to gain traction, more sector growth — and therefore investment — is expected heading into H2’20.”

Ovais Shahab
Head of Financial Services
KPMG in Saudi Arabia

[14] https://xpressriyadh.com/sama-approved-licences-for-digital-wallets-in-saudi-arabia/

UAE Abu Dhabi Global Market (ADGM) providing opportunities for fintech testing and development

The UAE is a strong proponent of fintech. The Abu Dhabi Global Market (ADGM), one of the Abu Dhabi financial fee zones, provides a number of fintech support structures. The most prominent of these is RegLab, which operates as a sandbox for financial institutions and fintechs to develop and test their offerings.

In H2'20, the Financial Services Regulatory Authority of the ADGM launched three regtech pilot projects to help financial institutions improve their compliance and risk management. The projects include an AI-powered regbot for license applications, API-enabled monitoring of licensed institutions and a move to digitize regulations[16].

UAE government providing funds and support for startups and entrepreneurs

The Government of the UAE offers a number of funds and support programs for startups and entrepreneurs, including the Mohammed Bin Rashid Innovation Fund (US$550 million).

In order to encourage diversity, UAE accelerator DIFC FinTech Hive also established the accelerateHER mentorship program in partnership with Carter Murray specifically to develop female fintech talent[17].

"The UAE government has moved forward with a number of initiatives in order to help and foster the growth of fintech. The RegLab, a sandbox style program for fintechs, is a big part of this effort, in addition to programs like accelerateHER to promote diversity in entrepreneurship. These, combined with startup funds, will be a big part of developing the UAE's fintech ecosystem over time."

Abbas Basrai
Partner and Head of Financial Services,
KPMG in the Lower Gulf region

[16] https://www.adgm.com/media/announcements/fsra-launches-regtech-initiatives/
[17] https://www.difc.ae/newsroom/news/difc-fintech-hive-launches-career-mentorship-programme-accelerateher/

Not for distribution in the USA.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

EMEA

Top 10 fintech deals in EMEA in H1 2020

1. **N26** — $570M, Berlin, Germany — Banking — *Series D*
2. **Revolut** — $500M, London, UK — Payments/transactions — *Series D*
3. **Klarna** — $200M, Stockholm, Sweden — Payments/transactions — *Late-stage VC*
4. **Prepaid Financial Services** — $162.3M, London, UK** — Payments/transactions — *M&A*
5. **Checkout.com** — $150M, London, UK — Payments/transactions — *Series B*
6. **Starling Bank** — $123.1M, London, UK — Payments/transactions — *Late-stage VC****
7. **CurrencyCloud** — $121.8M, London, UK — Payments/transactions — *Series E*
8. **Qonto** — $115.8M, Paris, France — Payments/transactions — *Series C*
9. **Tink (Financial Software)** — $100.2M, Stockholm, Sweden — Lending — *Series E*
10. **Onfido** — $100M, London, UK — Cybersecurity — *Late-stage VC*

Source: Pulse of Fintech 2020, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020. **Prepaid Financial Services' head office is in London, so per PitchBook methodology, its headquarters is listed as residing in the UK. However, it has a front office in Ireland and was founded by Irish entrepreneurs, so it also operates within the Irish venture ecosystem. ***Starling Bank's fundraise was conducted across several tranches over a period of time, which per PitchBook methodology were summed and also indicated as closed when the final tranche was concluded.

Global insights

Fintech segments

Featured interviews

Spotlight articles

Regional insights

#fintechpulse

In H1'20, fintech companies in **Asia Pacific** received

$8.1B with 243 deals

Not for distribution in the USA.

In Asia Pacific, big fintechs keep growing while the small struggle

In H1'20, the biggest fintechs in Asia continued to gain ground, while smaller fintechs struggled for profitability and to attract new investments.

Battle for Southeast Asia continues as Gojek and Grab grow payments offerings

Southeast Asia was the hottest region for fintech investment in H1'20, led by a US$3 billion raise by Indonesia-based platform provider Gojek and an US$886 million raise by its Singapore-based competitor Grab. Both platform providers are actively expanding their payments services in the region. In January 2020, Grab acquired robo-advisor Bento, while Gojek acquired offline payments and cloud POS company Moka in April 2020.

Tech giants and platform players becoming dominant force in Asia Pacific

The increasing activity of platform players and large tech giants in the fintech space across Asia showcases how the lines between fintech and other sectors are blurring. In H1'20, Google, Tencent, Facebook and PayPal were all involved in Gojek's funding round, while Facebook announced a US$5.7 billion equity investment in India's Reliance Jio, which launched both direct e-commerce and Whatsapp platforms in H2'20.

Governments in Asia Pacific shaping fintech future

Regulation to shape the future of fintech was a critical focus in H1'20 in Asia.

Singapore introduced the Payments Services Act, legislation that includes regulatory requirements and a licensing program for cryptocurrency exchanges.

Hong Kong (SAR) created an opt-in regulatory framework for Digital Asset Exchange, although the licenses are only available to exchanges that deal with at least one security.

As a result of COVID-19, Australia re-opened submissions to its Select Committee on Financial Technology and Regulatory Technology, a senate committee tasked with reviewing fintech and regtech activities and identifying ways to support sustainable sector growth, in order to understand how the pandemic is affecting fintechs and how the government can best support them.

Trends to watch for in Asia Pacific

The ongoing US-china trade tension is likely to accelerate the focus by Chinese technology groups on Southeast Asia, as investments in the US, India and Europe become more challenging.

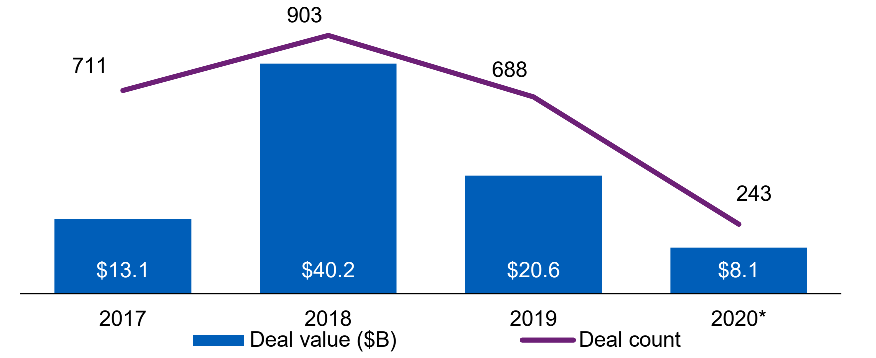
COVID-19 is resulting in a concentration of capital into companies that are well known and at later stages, in part because it is difficult to diligence earlier-stage companies remotely. As such, there will be a reduction and localization of Seed and Series A investments.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights

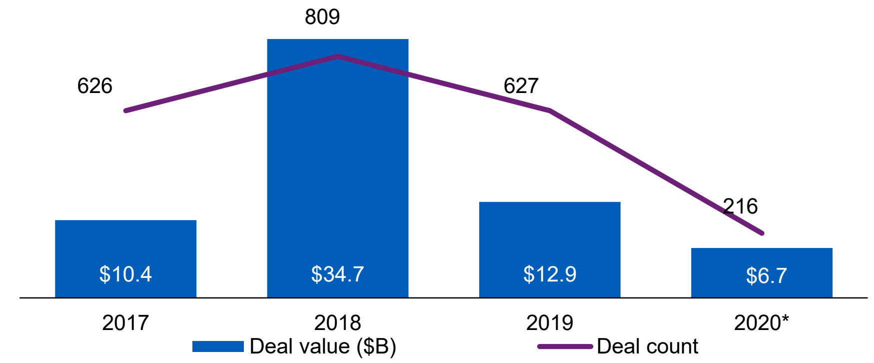
#fintechpulse

Fintech investment takes a breather

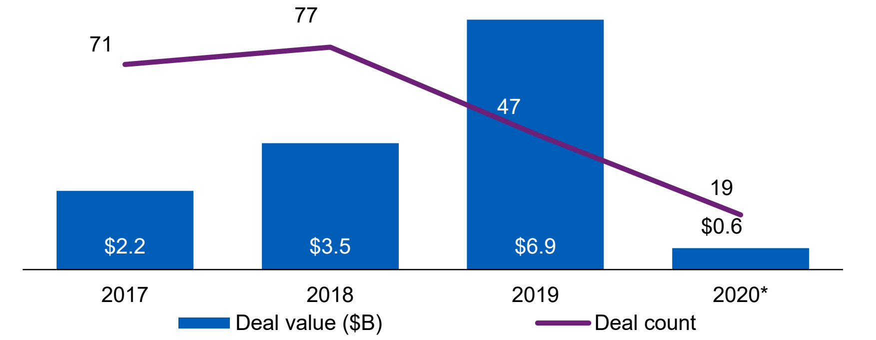
Total investment activity (VC, PE and M&A) in fintech in Asia Pacific
2017–2020*



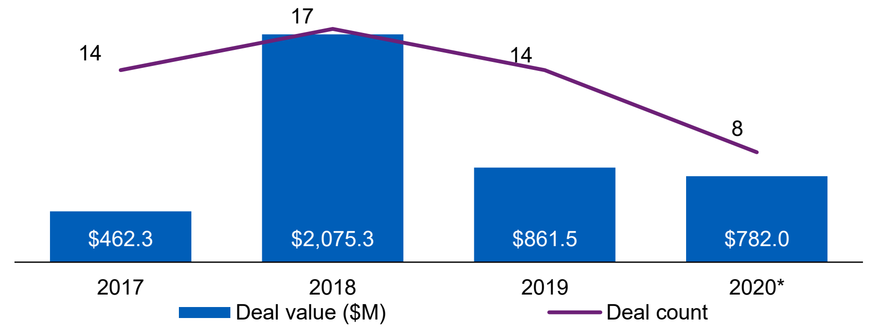
Venture activity in fintech in Asia Pacific
2017–2020*



M&A activity in fintech in Asia Pacific
2017–2020*



PE growth activity in fintech in Asia Pacific
2017–2020*



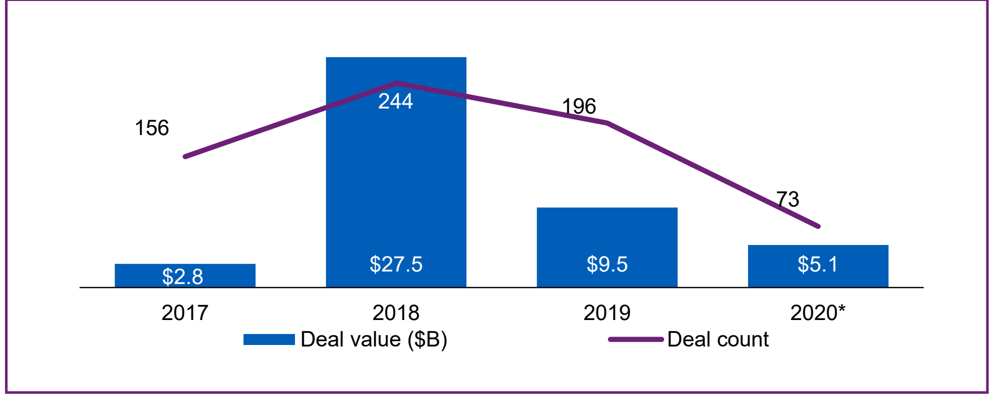
Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

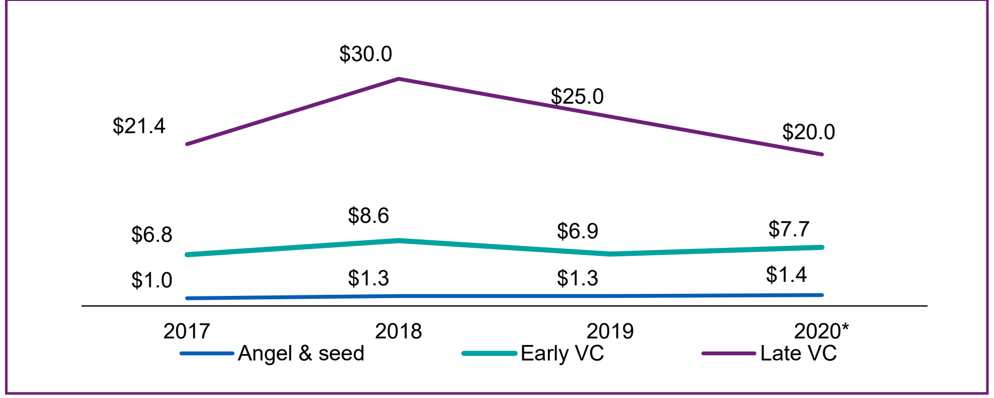
Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Caution reigns supreme

VC activity in fintech with corporate participation in Asia Pacific
2017–2020*



Median venture deal sizes ($M) by stage in fintech in Asia Pacific
2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook),
*as of 30 June 2020.

Not for distribution in the USA.

VC firms pull back to a degree

After such a frenzied period of consolidation and mega-deals, it is only natural to observe a downturn cyclically. The immediate impact of the COVID-19 pandemic as well as its ensuing, ongoing ramifications all contributed significantly to investors' caution, as well as the prolongation or cancellation of investments that were initially planned to be made. Given the slide in deal sizes at the late stage, it is also clear that mega-deals ceased to skew medians quite as much in the past 1.5 years, while the early and angel and seed stages saw healthy tallies of financing sizes persist. There is still plenty of appetite and resources for funding, it is simply more muted with caution as firms do more due diligence given heightened risks.

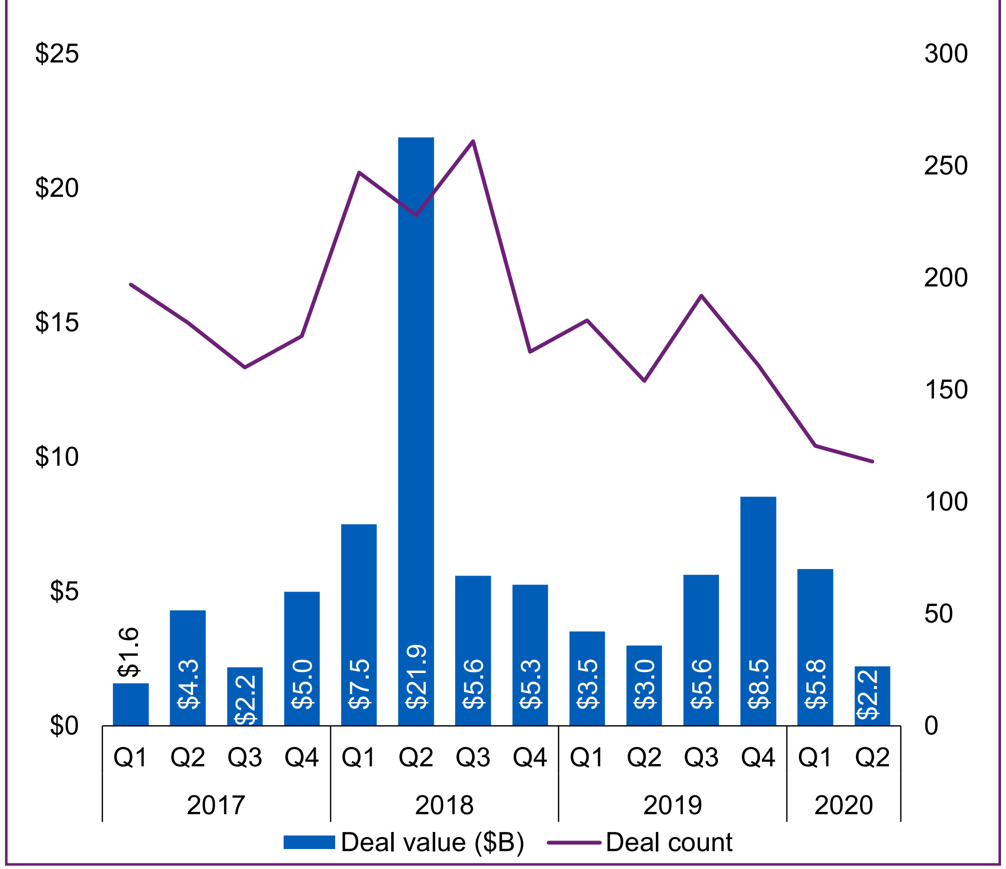
Looking forward, it is difficult to see caution not playing some role at least in the remainder of 2020. It is not that investors are viewing fintechs unfavorably, just that they are waiting until there is more certainty around the full economic ramifications of the pandemic. Much of the rationale for consolidation amid mid-stage companies persists as they look to achieve synergies and cut costs, while large venture-backed companies, such as Gojek and Grab that are pivoting into fintech, will continue to raise large sums to fund their expansions and/or pivots.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights

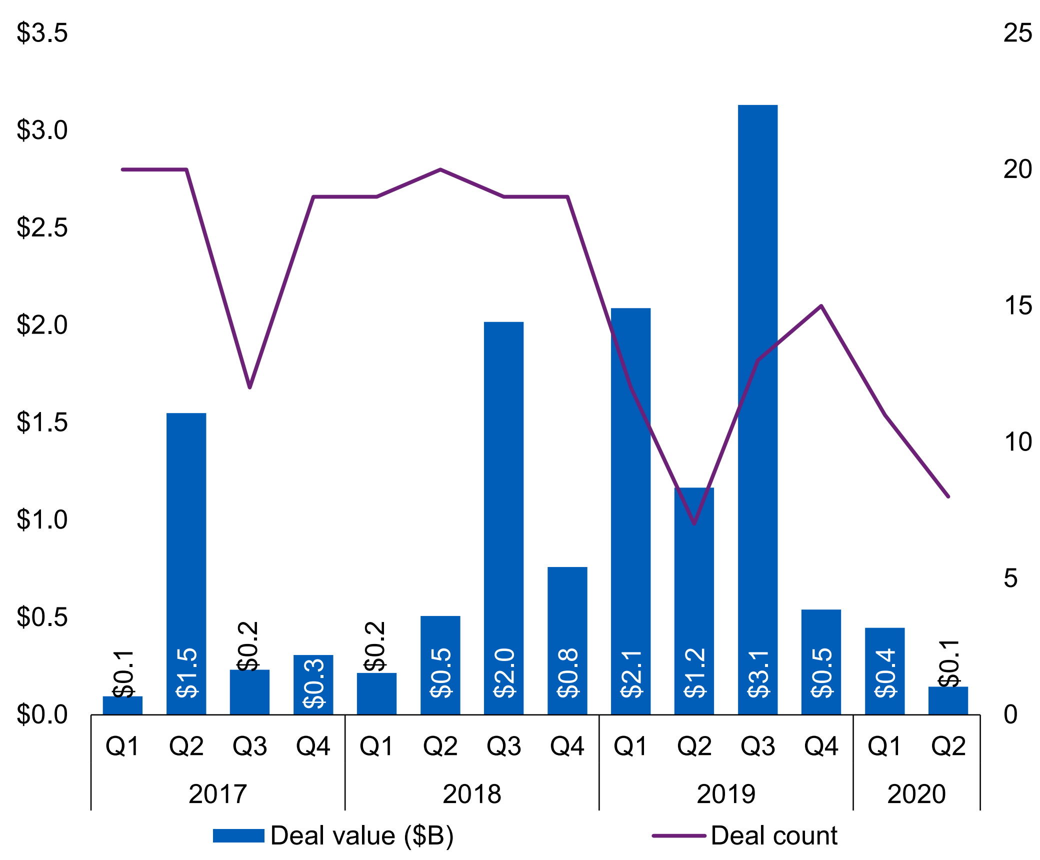
#fintechpulse

Fintech investment slows down

Total investment activity (VC, PE and M&A) in fintech in Asia Pacific 2017–2020*



M&A in fintech in Asia Pacific 2017–2020*

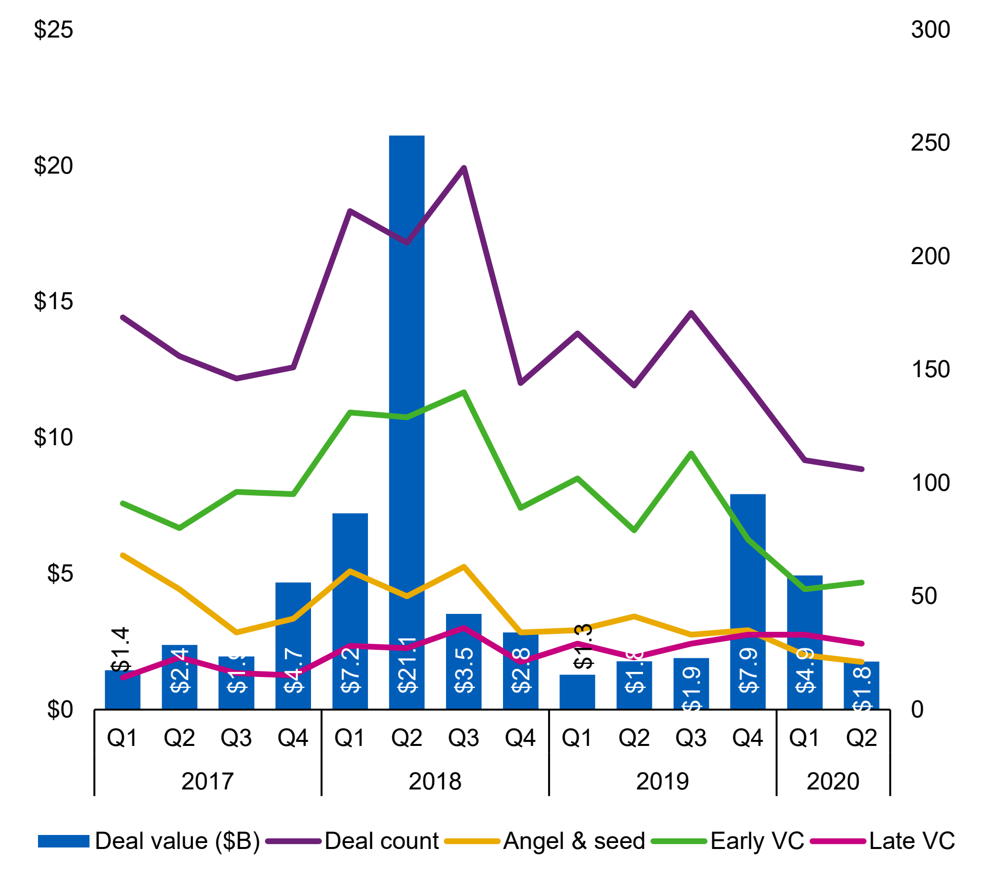


Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

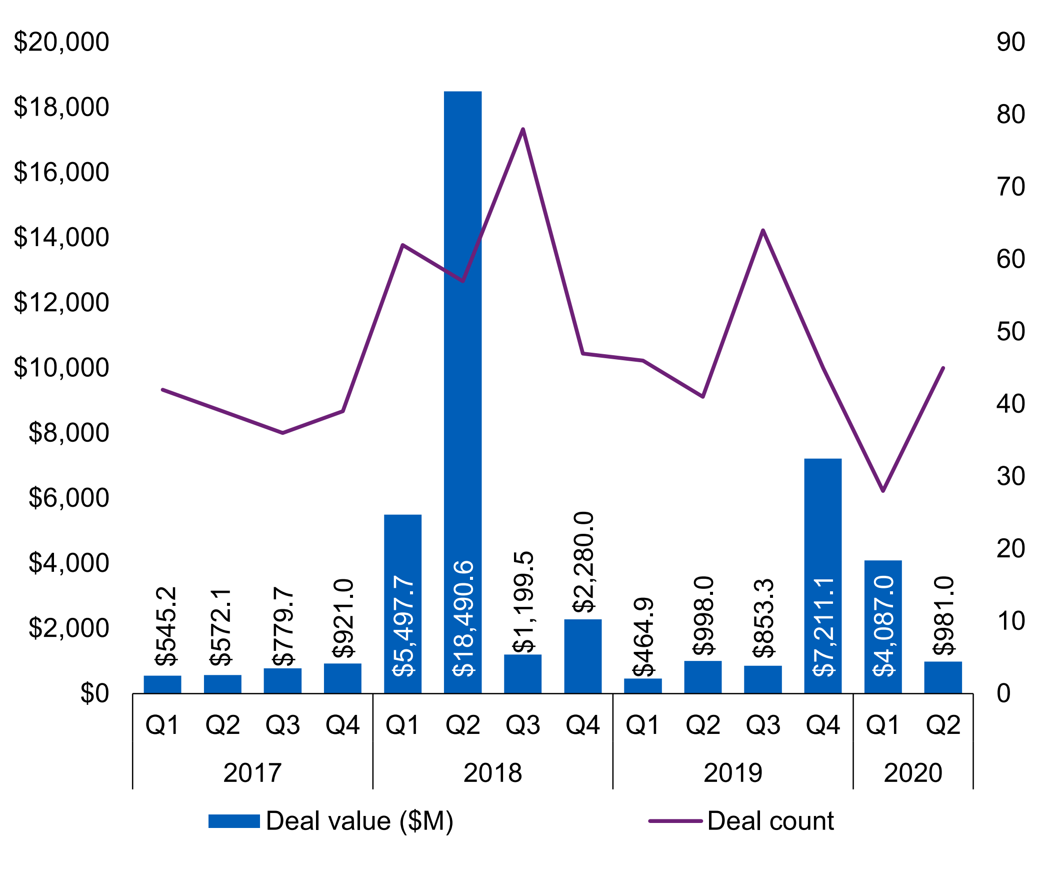
Not for distribution in the USA.

Venture financing evens out at subdued level

Venture activity in fintech in Asia Pacific
2017–2020*



VC activity in fintech with corporate participation in Asia Pacific
2017–2020*

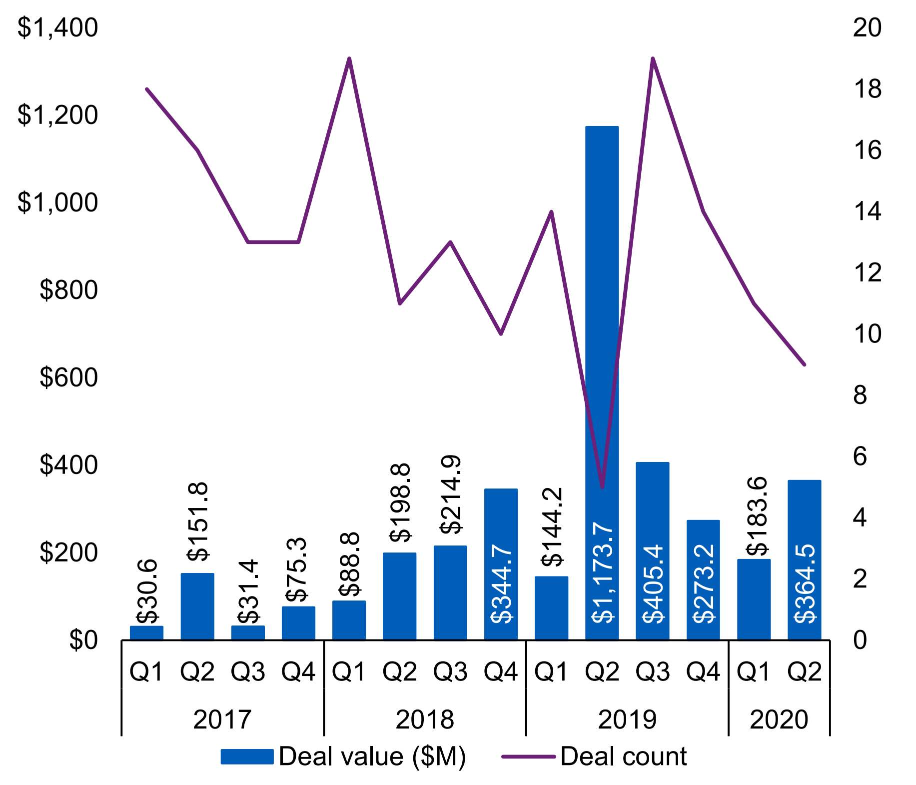


Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Not for distribution in the USA.

Scaling fintechs attracting attention in Australia

Total investment activity (VC, PE and M&A) in fintech in Australia 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook),
*as of 30 June 2020.

Australia is showing itself to be a strong fintech hub globally, with solid investments in H1'20 despite rising pandemic concerns, including a US$146 million raise by Airwallex and a US$130 million raise by Judo Bank.

Installment financing was a hot topic as Zip acquired US-based QuadPay and China-based mega-giant Tencent bought shares in Afterpay.

As fintechs in Australia aggressively work to scale, they are expected to drive increasing investment in the space. Additional offshore acquisitions are also expected as fintechs target international growth.

> "One area of fintech that continues to gain investor and funding support is the 'buy now, pay later' or instalment finance sector. Through COVID-19, more merchants are looking to enhance their e-commerce/POS options for their customers who have shifted their purchasing their activities to online/mobile."

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

Fintech investment in China remains stalled

Fintech investment in China dropped for the eighth-straight quarter in Q2'20, the US$285 million in fintech investment a shocking contrast from the peak high of US$20.7 billion in Q2'18.

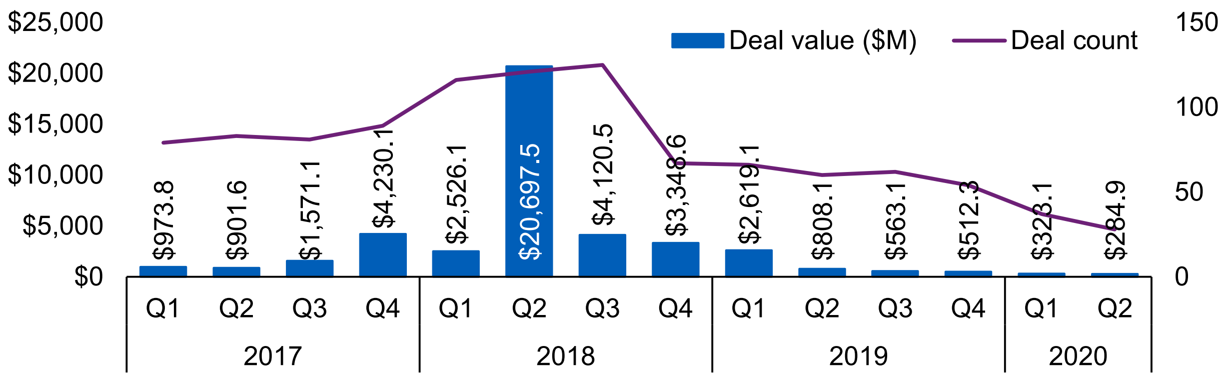
The decline partly reflects the maturity of China's fintech market, which is dominated by a small number of big players, in addition to changes to government fintech policies. Two of China's mega-giants held secondary listings in Hong Kong (SAR) in H1'20, with Alibaba raising US$11 billion and JD.com raising US$3.9 billion.

In H1'20, the Chinese government enhanced interest in the lending space as it mandate local governments to open their data to fintechs in order to generate innovative lending solutions to support COVID-19 recovery.

Banks in Hong Kong (SAR) upping their game

After issuing licenses in 2019, there were big expectations for Hong Kong (SAR)'s digital banking space in 2020. While the launches of some of the recipient banks have been delayed due to COVID-19, the issuance of the licenses is forcing other banks in the region to up their digital game. This is driving increasing corporate investment as banks get ready to compete with more digitally-enabled competitors.

Total investment activity (VC, PE and M&A) in fintech in mainland China 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

> "China's economy has recovered a lot from COVID-19 although it is still a tenuous situation. Many fintech businesses have been negatively impacted. This is challenging for some of the smaller fintechs due to the need for extra funding to manage cash flow — funding that is difficult to obtain."

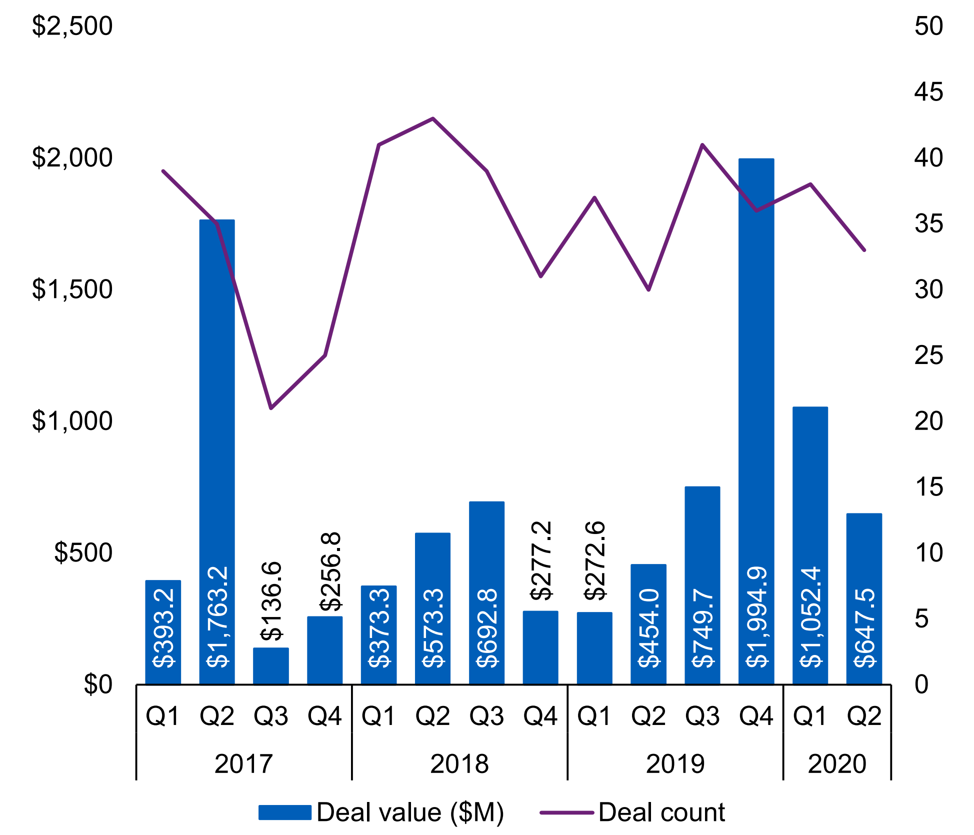
Andrew Huang
Partner and Fintech Leader, KPMG China

> "We've seen ESG investment appetite grow in the US and Europe and that trend is coming to Asia. A fintech ecosystem will emerge to meet the growing demand for robust ESG data, harnessing using new technologies such as IoT, Big Data, AI and blockchain. Hong Kong (SAR) is well-positioned to be a regional hub for this emerging industry, given its regional lead in securities trading."

Barnaby Robson
Partner, Deal Advisory, KPMG China

India: a key opportunity for fintech investors

Total investment activity (VC, PE and M&A) in fintech in India 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Despite COVID-19, India continued to see solid fintech investment in H1'20, led by a US$398 million angel investment in Navi Technologies, a US$300 million PE raise by Pine Labs and the US$185 million acquisition of PaySense by Netherlands-based PayU.

While the ongoing pandemic and challenges with international deal-making could put a damper on fintech investment in India in H2'20, the region is expected to remain a major opportunity for investors over the medium and long-term.

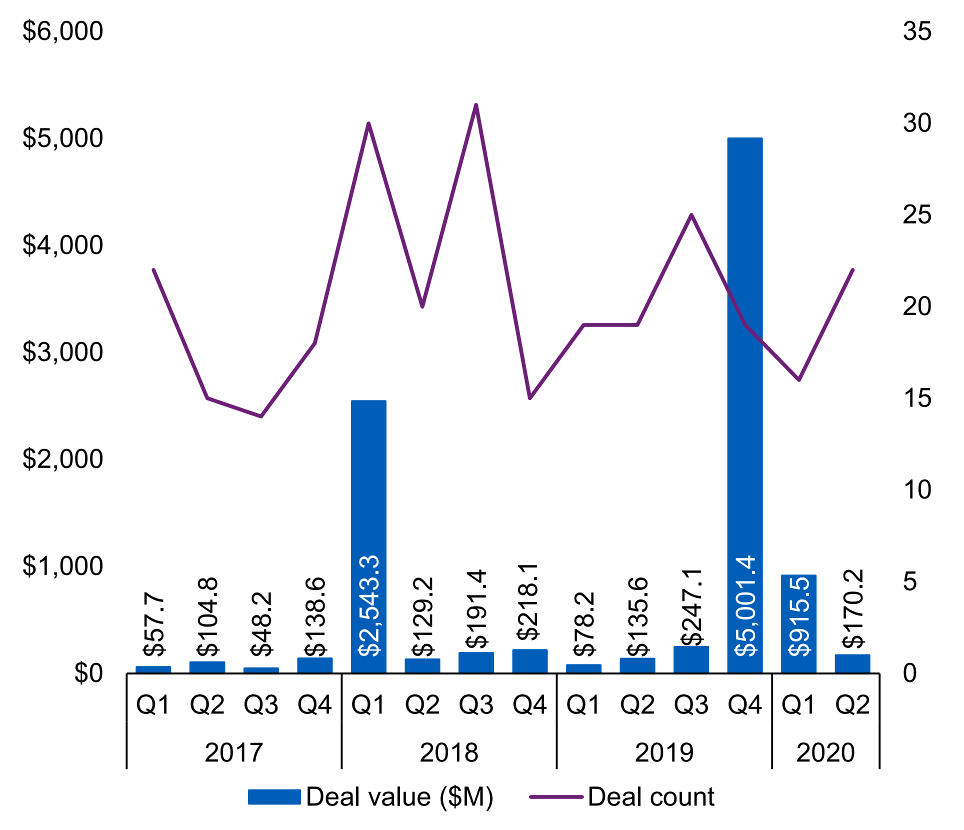
> "Pre-COVID-19, fintech-driven financial services especially in lending, insurtech and distribution has been attracting significant investments. COVID-19 has in fact fast tracked the digital economy and significant investments are being made by established banks and insurance companies, which can also lead to acquisition and more investments from investors."

Sanjay Doshi
Partner and Head of Financial Services Advisory
KPMG in India

Not for distribution in the USA.

Government of Singapore driving fintech future

Total investment activity (VC, PE and M&A) in fintech in Singapore 2017–2020*



Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

While fintech investment was down in H1'20 in Singapore, there was a significant amount of activity, particularly from the government. In order to help businesses through the current crisis, the government has pushed for more lending and microlending offerings to small and medium-sized enterprises (SMEs), whether by banks or by fintechs.

The government also continued to evaluate digital bank license applications, which could be issued in H2'20.

> "In Singapore, we're seeing mature fintechs really securing big raises. So, while the total number of fundraising events has come down, the quantum per deal is a lot higher. We're also starting to see some consolidations, particularly in the payments space. These are all signs of how the fintech market in Singapore and across Southeast Asia is really beginning to mature."

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

Asia Pacific

Top 10 fintech deals in Asia Pacific in H1 2020

1. **Gojek** — $3B, Jakarta, Indonesia — Payments/transactions — *Series F*
2. **Grab** — $886M, Singapore — Payments/transactions — *Late-stage VC***
3. **Navi Technologies** — $397.9M, Bengaluru, India — Payments/transactions — *Angel****
4. **Pine Labs** — $300M, Noida, India — Payments/transactions — *PE growth*
5. **Paidy** — $251M, Tokyo, Japan — Payments/transactions — *Series C*
6. **KSNET** — $237M, Seoul, South Korea — Lending — *Buyout*
7. **PaySense** — $185M, Mumbai, India — Payments/transactions — *M&A*
8. **Airwallex** — $160M, Melbourne, Australia — Payments/transactions — *Series D*
9. **Judo Bank** — $146.6M, Southbank, Australia — Payments/transactions — *PE growth*
10. **Moka (Financial Software)** — $130M, Jakarta, Indonesia — Payments/transactions — *M&A*

Source: Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.
**Grab's round is classified as late-stage VC until further documentation confirming it is Series I is available.
***Navi's round is classified as angel given the fact a consortium of individual investors was responsible for the funding.

About us

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

Not for distribution in the USA.

Contacts

Get in touch with us

Ian Pollari
Global Co-Leader of Fintech, KPMG International
Partner and National Banking Leader, KPMG Australia
E: ipollari@kpmg.com.au

Anton Ruddenklau
Global Co-Leader of Fintech, KPMG International
Partner and Head of Digital & Innovation, Financial Services, KPMG in the UK
E: anton.ruddenklau@kpmg.co.uk

Chris Hadorn
Global Head of Payments, KPMG International
Principal, Financial Services, KPMG in the US
E: chrishadorn@kpmg.com

Fabiano Gobbo
Global Head of Regtech, KPMG International
Partner, Risk Consulting, KPMG in Italy
E: fgobbo@kpmg.it

Gary Plotkin
Global Insurtech Leader, KPMG International
Principal and Insurance Management Consulting Leader, KPMG in the US
E: gplotkin@kpmg.com

John Armstrong
Partner and National Industry Leader, Financial Services, KPMG in Canada
E: wjohnarmstrong@kpmg.ca

Andrew Huang
Partner and Fintech Leader, KPMG China
E: andrew.huang@kpmg.com

Anna Scally
Partner and Fintech Leader, KPMG in Ireland
E: anna.scally@kpmg.ie

Ilanit Adesman
Partner, Financial Risk Management, KPMG in Israel
E: iadesman@kpmg.com

Gary Chia
Partner and Head of Financial Services Regulatory and Compliance, KPMG in Singapore
E: garydanielchia@kpmg.com.sg

Bob Ruark
Principal, Financial Services Strategy and Fintech Leader, KPMG in the US
E: rruark@kpmg.com

Not for distribution in the USA.

Acknowledgements

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

- **Ian Pollari**, Global Co-Leader of Fintech, KPMG International, Partner and National Banking Sector Leader, KPMG Australia
- **Anton Ruddenklau**, Global Co-Leader of Fintech, KPMG International, Partner and Head of Digital & Innovation, Financial Services, KPMG in the UK
- **Ilanit Adesman**, Partner, Financial Services Risk Management, KPMG in Israel
- **John Armstrong**, Partner and National Industry Leader, Financial Services, KPMG in Canada
- **Mårten Asplund**, Head of Financial Services, KPMG in Sweden
- **Abbas Basrai**, Partner and Head of Financial Services, KPMG in the Lower Gulf region
- **Tek Yew Chia**, Partner and Head of Financial Services Advisory, KPMG in Singapore
- **Stephane Dehaies**, Partner and Fintech Leader, KPMG France
- **Sanjay Doshi**, Partner and Head of Financial Services Advisory, KPMG in India
- **Peter Dylewski**, Partner, KPMG in the UK
- **Ali Geramian**, Risk Consulting Partner, KPMG in the US
- **Fabiano Gobbo**, Global Head of Regtech, KPMG International, Risk Consulting Partner, KPMG in Italy
- **Chris Hadorn**, Global Head of Payments, KPMG International
- **Andrew Huang**, Partner and Fintech Leader, KPMG China
- **Charles Jacco**, Principal, Informational Protection and Cyber Security, Financial Services Leader, KPMG in the US
- **Ram Menon**, Risk Consulting Partner, KPMG in the US
- **Burcin Nee**, Global Head of Transfer Pricing, KPMG International
- **Bernd Oppold**, Partner, KPMG in Germany
- **Bill Packman**, Partner and Wealth and Asset Management Consulting Leader, KPMG in the UK
- **Laszlo Peter**, Head of Blockchain Services, Asia Pacific, KPMG Australia
- **Gary Plotkin**, Global Insurtech Leader, KPMG International, Principal and Insurance Management Consulting Leader, KPMG in the US
- **Benjamin Roberts**, Principal, Financial Services Risk & Regulatory Technology Lead, KPMG in the US
- **Barnaby Robson**, Partner, Deal Advisory, KPMG China
- **Robert Ruark**, Principal, Financial Services Strategy and Fintech Leader, KPMG in the US
- **Anna Scally**, Partner and Fintech Leader, KPMG in Ireland
- **Ovais Shahab**, Head of Financial Services, KPMG in Saudi Arabia
- **Damian Smith**, Director, Digital Architecture Leader, KPMG in the US
- **Bryce Wagner**, Director, Risk Consulting, KPMG in the US
- **Chris Wang**, Partner, Financial Risk Management, KPMG in China

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights
#fintechpulse

Methodology

The underlying data and analysis for this report (the “Dataset”) was provided by PitchBook Data, Inc (“PitchBook”) on 10 July 2020 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 10 July 2020. 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. PE activity, however, includes extrapolated deal values where this information is available.

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.

Not for distribution in the USA.

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 who 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 who provide a technology-driven service to facilitate and streamline compliance with regulations and reporting as well as protect from employee and customer fraud.

Please note that the Middle East and South Asia and Africa regions are not broken out in this report. Accordingly, if you add up the Americas, Asia Pacific and Europe regional totals, they will not match the global total, as the global total takes into account those other regions. Those specific regions were not highlighted in this report due to a paucity of datasets and verifiable trends.

Global insights
Fintech segments
Featured interviews
Spotlight articles
Regional insights

#fintechpulse

home.kpmg/fintech

Not for distribution in the USA.