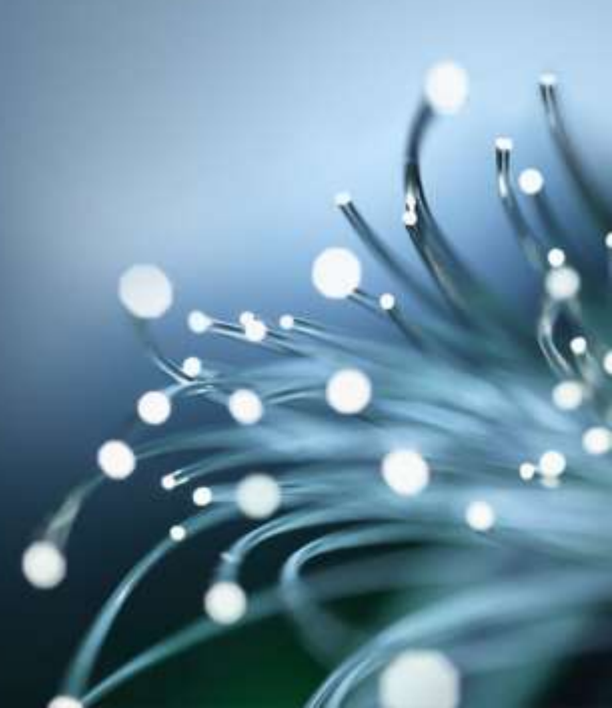
The Pulse of Fintech Q2 2017

Global analysis of investment in fintech



1 August 2017

Welcome message

Welcome to the Q2'17 edition of KPMG's the Pulse of Fintech, a report highlighting the key trends and issues impacting the fintech market this quarter, both globally and in key regions around the world.

Globally, the fintech market made a strong rebound in Q2'17, with total investment more than doubling on a quarter-over-quarter basis to more than USD $8.4 billion. Large increases in private equity (PE) funding and M&A funding propelled the increase, while the amount of venture capital (VC) investment held relatively steady.

Business-to-business (B2B) related fintech investments gained prominence during the quarter, prompted by growing recognition that many traditional financial institutions and insurance companies need to reduce their cost base. This has led to an increase in corporate interest in technologies that can enable more efficient back office functions, such as artificial intelligence (AI), robotics, regtech, data & analytics and cloud services. Blockchain also remained a strong area for investment, expanding its reach well beyond banking and into potential applications for insurance, health and government.

The Americas dominated fintech investment during Q2, primarily the result of the $3.6 billion buyout of Canada-based DH Corp. Excluding this outlier deal, it was clear that the US and Europe drove the vast majority of fintech investment, with both regions seeing $2 billion in investment. Asia, meanwhile, saw relatively even investment quarter over quarter, held back only by a lack of mega-deals. This could change rapidly over the next few quarters as more activity is expected, particularly from large tech giants and payments companies focused on international expansion. Southeast Asia is set to become a key battleground as competition heats up in the payments space.

This report discusses these significant trends and examines a number of key questions driving interest in the fintech market today, including:

— Will the fintech market continue to rebound?
— Is the focus of fintech investment shifting from front office to back office?
— When will blockchain show it can be commercialized?
— What are the major opportunities driving investment in insurtech?

If you would like to discuss any of the information contained in this report, contact a KPMG advisor in your area.

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Jonathan Lavender
Global Chairman,
KPMG Enterprise,
KPMG International

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

Murray Raisbeck
Global Co-Leader of Fintech,
KPMG International and
Partner,
KPMG in the UK

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

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

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In Q2'17, global investment in fintech companies hit

$8.4B

across

293 deals

Global investment in fintech soars to 4-quarter high

Following 3 relatively lackluster quarters, the global fintech market rebounded strongly in Q2'17, with investment more than doubling quarter over quarter to $8.4 billion. While the number of fintech deals remained well off of the peaks experienced in 2015, deal volume remained healthy during Q2 with 293 transactions.

VC investment in fintech remains strong, despite slight decrease in Q2'17

Despite a slight decline, global VC investment in fintech remained robust compared to all but two major outlier quarters (Q3'15 and Q2'16). Deal volume at the end of Q2'17 was also on track to approach 2016's tally of over 1,000 deals, despite an ongoing slide in angel and seed-stage deal volume, which extended to a fifth-straight quarter. The relative stability across other investment stages suggests that while there may be some caution in the VC market globally, investors remain interested in tangible fintech opportunities.

Corporates continue to be key drivers of VC investment globally

Corporate participation in all VC deals globally reached a new high of 21 percent during the first half of 2017, up from 17 percent in 2016. Globally, corporates participated in $2.6 billion worth of VC to fintech companies in the first half of 2017, already exceeding the year-end total of 2014. Asia continues to see significantly higher levels of corporate participation compared to other regions, with nearly 37 percent in Q2'17 alone, compared to 19 percent in the Americas, 21 percent in the US and 24 percent in Europe in Q2'17. Corporates appear to be well-poised to continue driving fintech investments in the future.

Large deals, or lack thereof, continue to cause major peaks and valleys in fintech investment

Q2'17 investment results were significantly skewed by an outlier financing: the $3.6 billion buyout of Canada-based DH Corp. by US-based Vista Equity Partners. This trend toward individual outlier financings affecting quarterly results is expected to continue on a relatively regular basis as large tech companies and fintechs make big deals in the space, as part of growth and expansion plans. While the impact of outlier financings during the first half of 2017 is down next to the heights of 2016, the average venture round size exceeded the median by approximately $10 million.

Valuations continue to decline at the late-stage

Once again, the global median late-stage, post-money valuation fell during Q2'17, likely as a result of the scarcity of such late-stage deals in the fintech market globally, in addition to a normalizing of investor sentiment with respect to VC investment.

Meanwhile, fintech exits increased during Q2'17, with the number of exits matching the second-best quarter experienced to date. While the total exit value remained relatively weak, the increase in activity may be a positive sign leading into the remainder of the year.

US VC financing to fintechs bolstered by late-stage deals

The US saw a positive uptick in VC investment during Q2'17, prompted by a solid number of late-stage deals. The median of late-stage deals value dropped considerably, down to pre-2014 levels. However, the median deal size for early-stage deals and angel and seed-stage deals both increased.

Fintech investment in Europe more than doubles

Fintech investment in Europe more than doubled in Q2'17, with over $2 billion invested, compared to just $880 million in Q1. While VC investment decreased substantially following a quarter with a number of outlier investments, M&A for the quarter was quite strong and helped to keep total fintech investment high. The robustness of the European fintech market has been helped by the presence of an increasing number of fintech hubs, from London and Berlin to Paris and Dublin.

Regtech investment on pace for a record year

Regtech investment and deals volume continued to gain strength in Q2'17 with a mid-year total of $591 million invested across 60 deals. Regtech investment has already exceeded 2015's annual results and is on pace to surpass 2016's record. Deals volume is also on track to exceed 2014's peak high of 106 deals.

Global investment in fintech soars to 4-quarter high (cont'd)

Lack of mega-deals affects totals in China

China received much less fintech investment in Q2'17 than its regional counterparts, which contributed to the region's just $760 million in funding, although the amount invested held relatively steady compared to Q1'17. The lack of mega-deals so far in 2017 has no doubt affected year-to-date VC totals in Asia, while the region's M&A market for fintechs is much less mature than those of the US and Europe, leaving less activity in that regard. Despite the small decline in fintech investment, deal volume in Asia remained relatively robust.

International expansion remains a high priority for tech giants

Over the last few quarters, one of the most visible trends in fintech has been the focus on international expansion by large tech giants. Alibaba has been one of the most active in this space, given its increased investment in India-based Paytm, its well-publicized push to acquire US-based MoneyGram and its recent move to buy a controlling interest in Southeast Asia online retailer Lazada.[1] These types of global transactions will likely continue to create major ripples across the global fintech market, particularly in the payments space, given its ever-increasing competitive intensity.

Fintech focus moving beyond the customer experience

Globally, the focus of fintech companies has typically revolved around customer-facing initiatives and improving the customer experience. This trend has begun to change over the last quarter, particularly in the US and Europe, where there is increasing interest in leveraging fintech to improve mid and back office effectiveness and efficiencies.

This interest has been assisted by an increasing focus on the B2B market, as both fintechs and fintech investors have realized the strong viability of B2B offerings. Looking at the top 10 Q2'17 fintech deals globally, three involve B2B-focused companies, including CCH Tagetik ($321m), Pos Portal ($158m) and ITRS Group ($140.6M). B2B-related deals also had a strong presence at the regional level, particularly in the US and Europe.

Blockchain remains a catalytic force in fintech innovation

Globally, blockchain continues to attract significant attention from both traditional VC investors and corporations. Large consortia, such as R3 in banking and B3i in insurance, have helped catalyze interest in blockchain technologies, even as smaller consortia have formed to delve into individual blockchain use cases. Governments in Singapore and the United Arab Emirates have also increased efforts to become leading blockchain hubs.[2, 3] The diversity of blockchain prototypes and pilot projects appear to have grown exponentially, including those focused on credit default swaps, supply chains and re-insurance.

The challenge with blockchain continues to be the lack of implemented production systems. Over the next few quarters, there needs to be a shift from proving the technical capabilities of blockchain prototypes to proving that blockchain can create value by transforming different organizational functions.

Trends to watch for globally

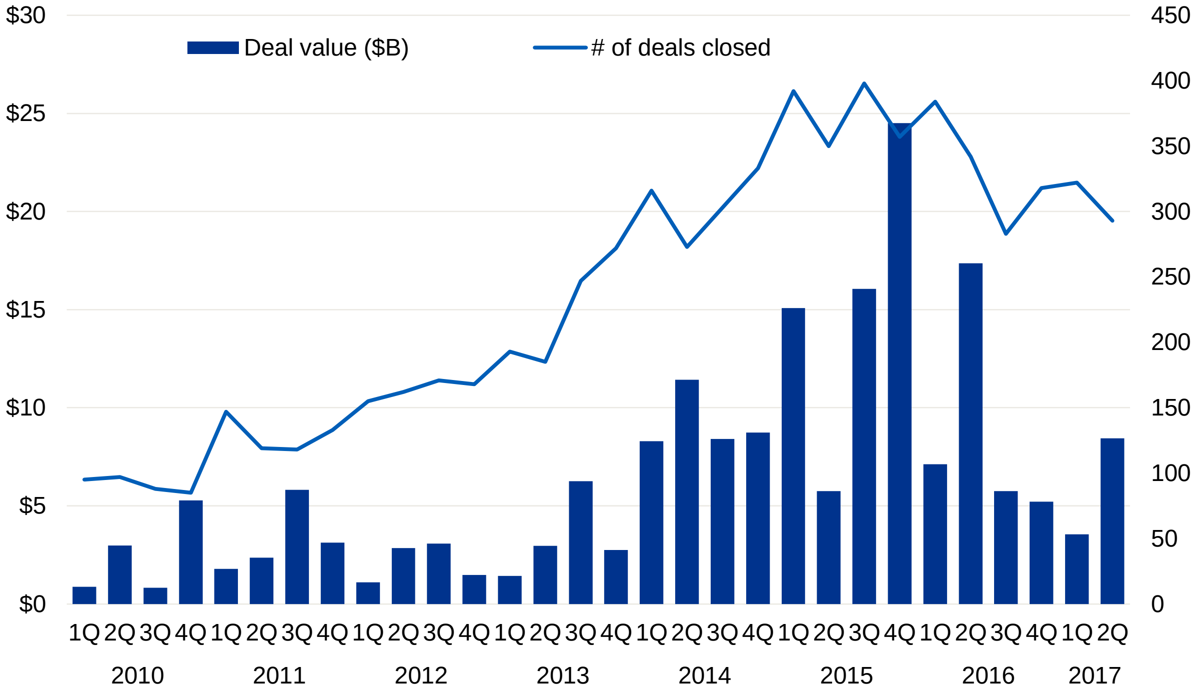
In the future, the focus on B2B offerings will likely continue to grow as banks continue to recognize the need to significantly reduce their cost operating models in order to better compete with challenger banks with cost-to-income ratios that are half to one-third of their own. With an increasing focus on mid and back office efficiencies, investors are expected to continue focusing on related technologies. Blockchain, AI, cloud computing and robotics are expected to remain hot areas of investment throughout the remainder of 2017. With the approach of PSD2, there will also be increasing interest in fintechs that can help banks develop API offerings and platforms that can succeed in an open banking environment. Over the next few quarters, there may also be a number of larger deals as incumbent players and tech giants look to expand through partnerships, particularly around payments and cross-border remittances in Asia.

1. http://www.cnbc.com/2017/06/28/alibaba-to-invest-1-billion-dollars-into-lazada.html
2. https://www.ibm.com/think/fintech/accelerating-adoption-blockchain-singapore-finance-trade/
3. https://www.wsj.com/articles/dubai-aims-to-be-a-city-built-on-blockchain-1493086080

A new normal for volume is emerging

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

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

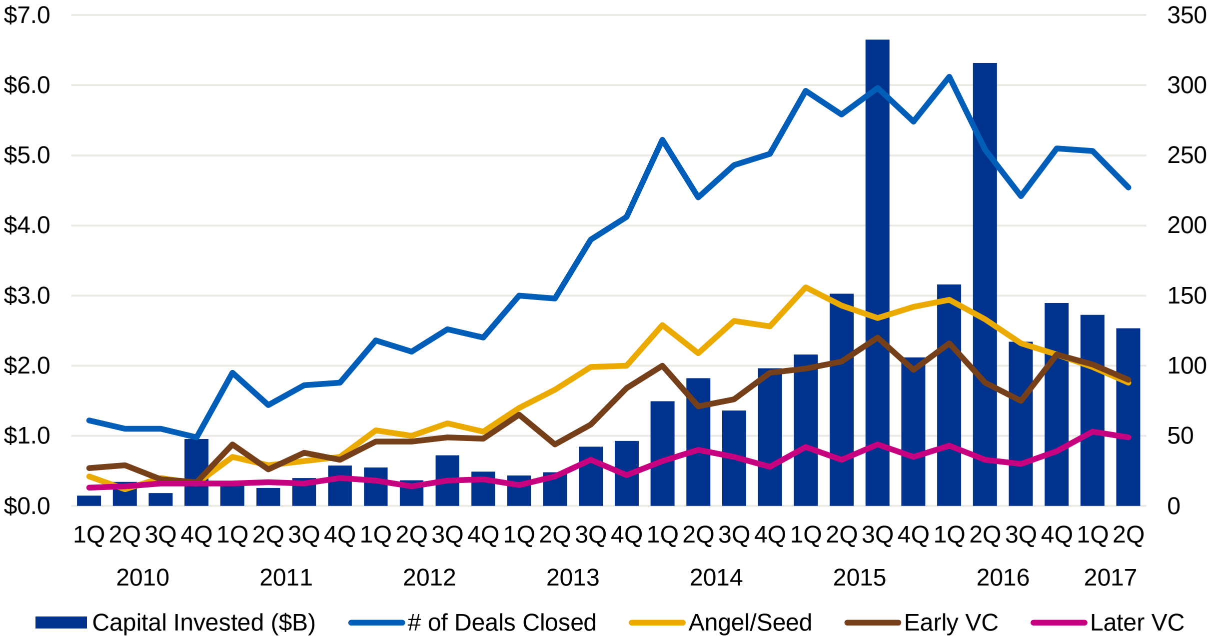
Note: refer to the Methodology section on page 76 to understand any possible data discrepancies between this edition and previous editions of The Pulse of Fintech. Please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

After a decline in much of 2016 in terms of volume, investment activity within fintech overall rose slightly in Q1’17, only to decline once more by count in Q2’17, even as overall deal value surged, thanks in part to one massive buyout in the Americas. As exemplified by the top 10 global deals, much of transactional activity still appears centered within payments-related companies, hinting at continued consolidation within that space in particular.

Investors remain interested

Global VC activity in fintech

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

On a historical basis, VC activity within fintech may not be at its peak, but deal value and volume remain quite robust, showcasing continued investor interest. It is especially worth noting that the majority of the decline in VC volume has been at the early stages.

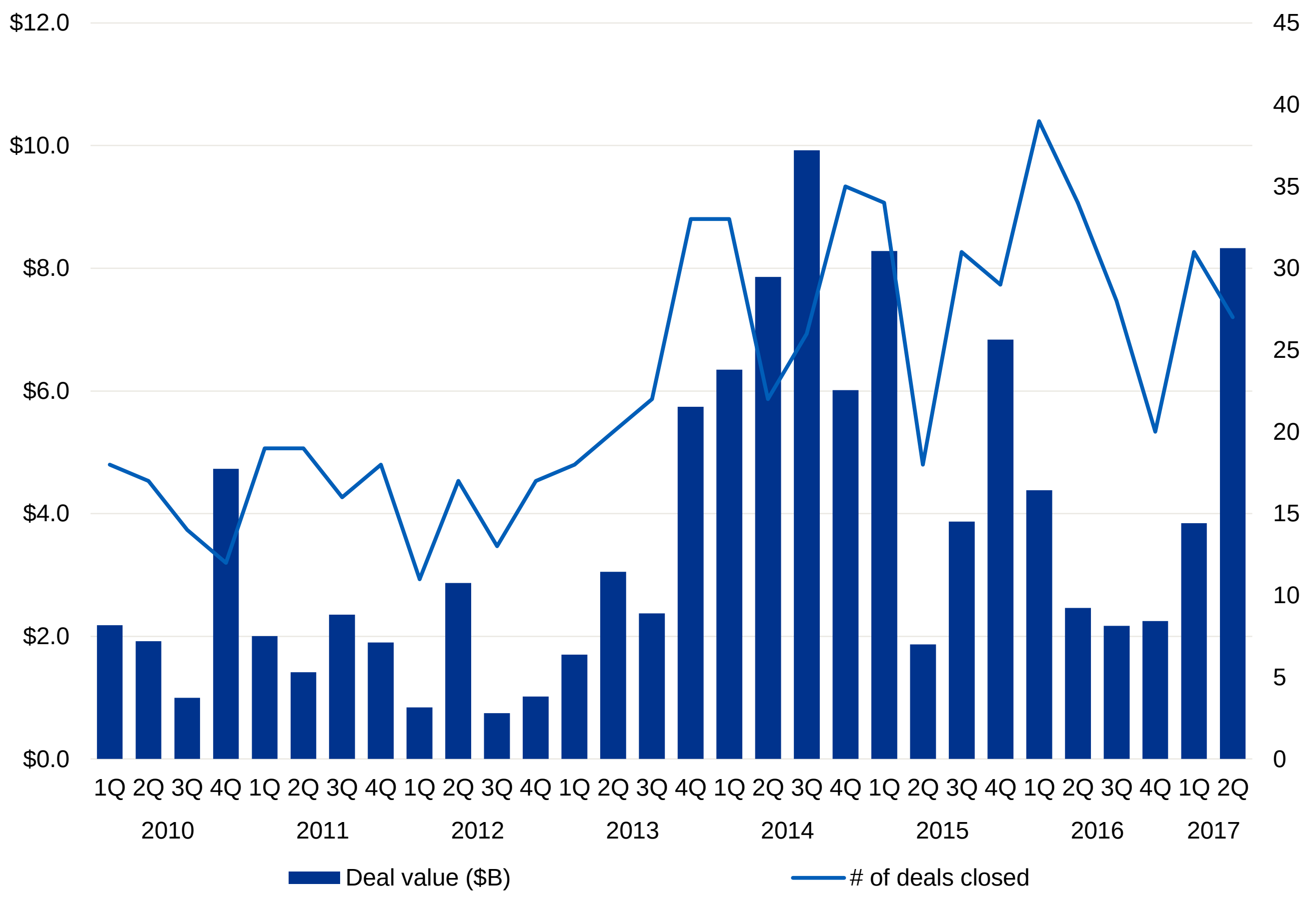
"In order to compete and win in the future, financial institutions will need to become far more aggressive around reducing their cost base. This will likely drive significant corporate interest in fintechs, helping them achieve cost efficiencies through the deployment of smarter technologies within their operational and product areas."

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

A mega-deal skews PE deal value totals

Global PE activity in fintech

2010 – Q2'17

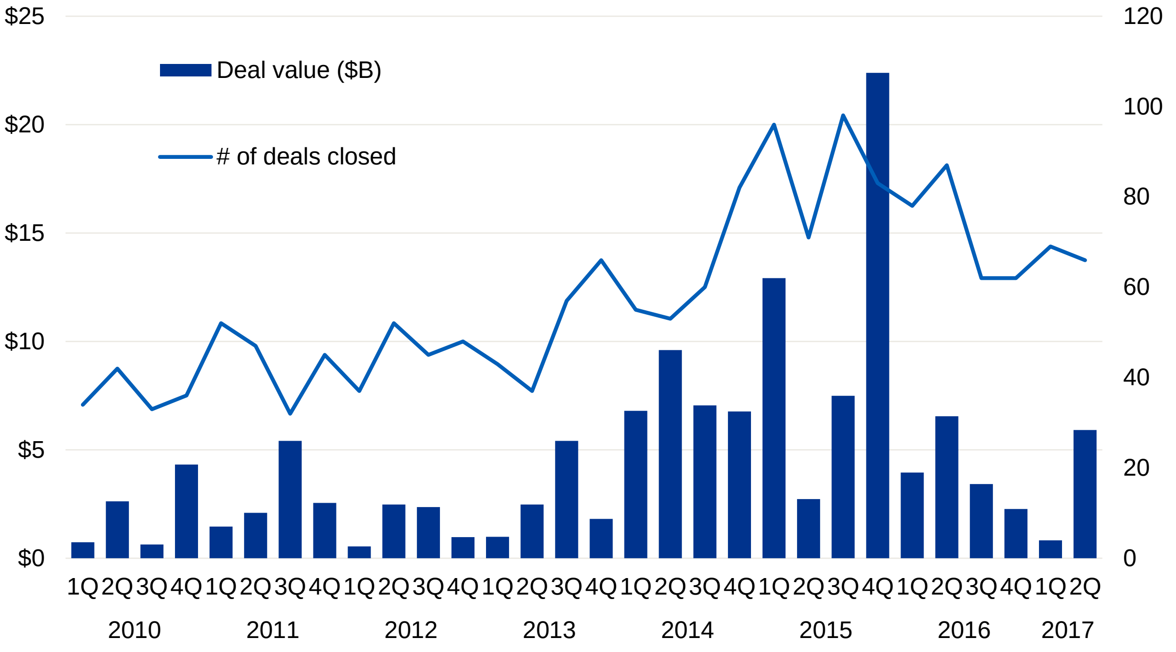


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

As PE dealmakers still grapple with a complex and challenging environment for finding new targets, their interest in the tech sector remains avid. Fintech is hardly left out of their scope, this is evidenced by the handful of heftily sized buyouts listed in this edition's top 10 transaction rankings. The $3.6 billion take-private buyout of DH Corp. by Vista Equity Partners' Misys skewed overall deal value significantly in Q2'17.

M&A holds steady by count as value resurges

Global M&A activity in fintech
2010 – Q2'17



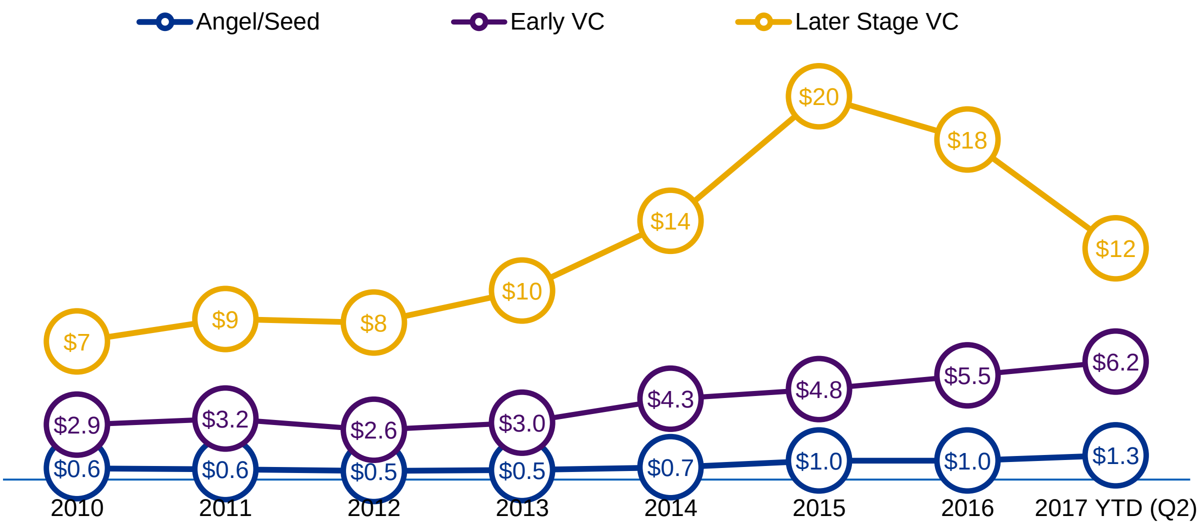
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

In light of past outliers of aggregate deal value for fintech M&A, Q2’17’s total may not seem that lofty, but it is important to note that it is clearly toward the historically higher end, in part due to the inclusion of the DH Corp. buyout. Beset by innovation from multiple angles, the payments space is seeing clear consolidation, while ongoing investment in improving back-end financial processes and the like is encouraging general-purpose institutions to cut deals as well.

Late-stage valuations cool

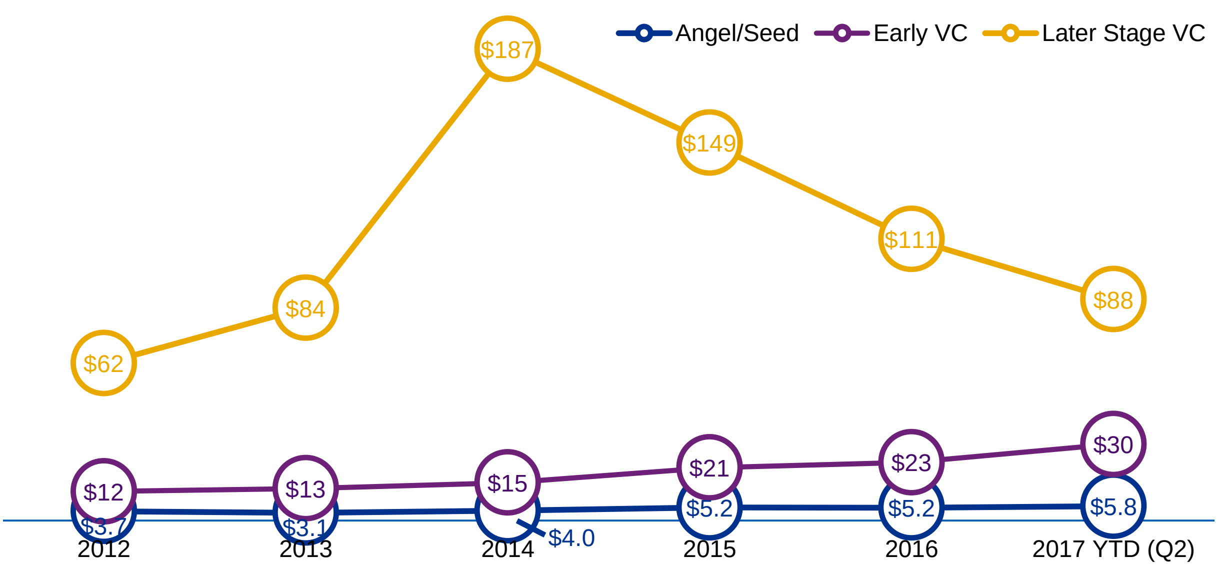
Global median venture financing size ($M) by stage in fintech

2010 – Q2'17



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

2012 — Q2'17

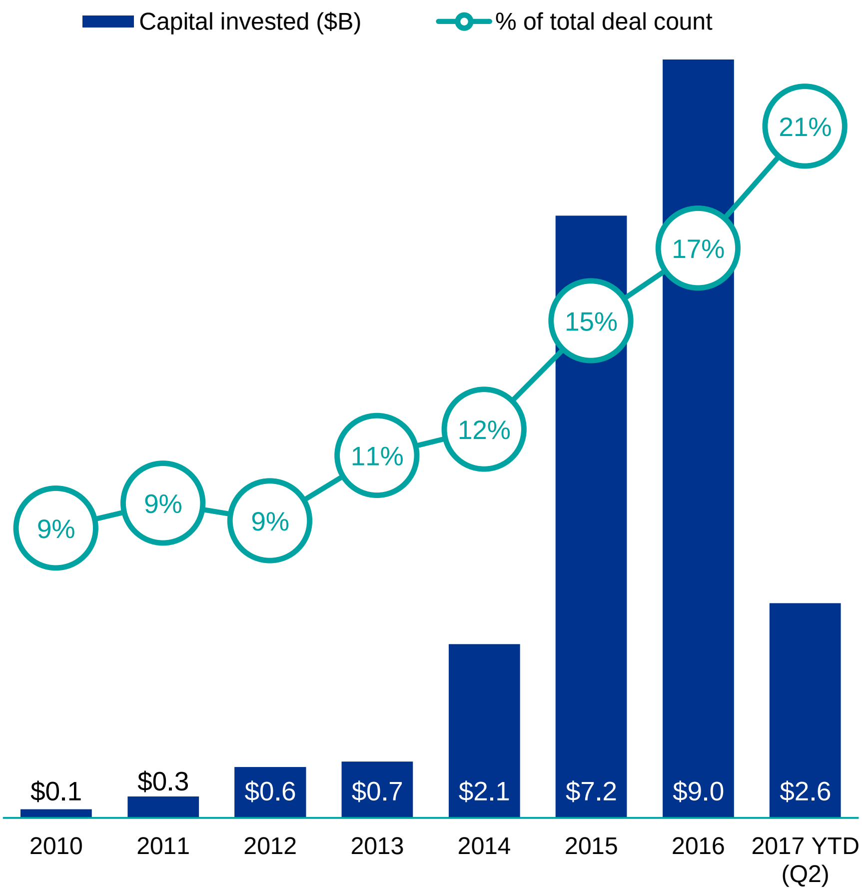


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017

Corporate venture participation grows apace

Global venture activity in fintech with corporate venture participation

2010 – Q2'17



Corporate-affiliated investors have been dialing up their participation in venture financings worldwide, and fintech is no exception. Particularly as innovation continues apace within the sector, multiple CVC arms, whether of financial institutions or companies with multiple business lines, are joining in gaining exposure to fast-growing companies with potentially viable technologies. Financial gain is also an incentive, of course, with significant M&A opportunities remaining for fintech startups.

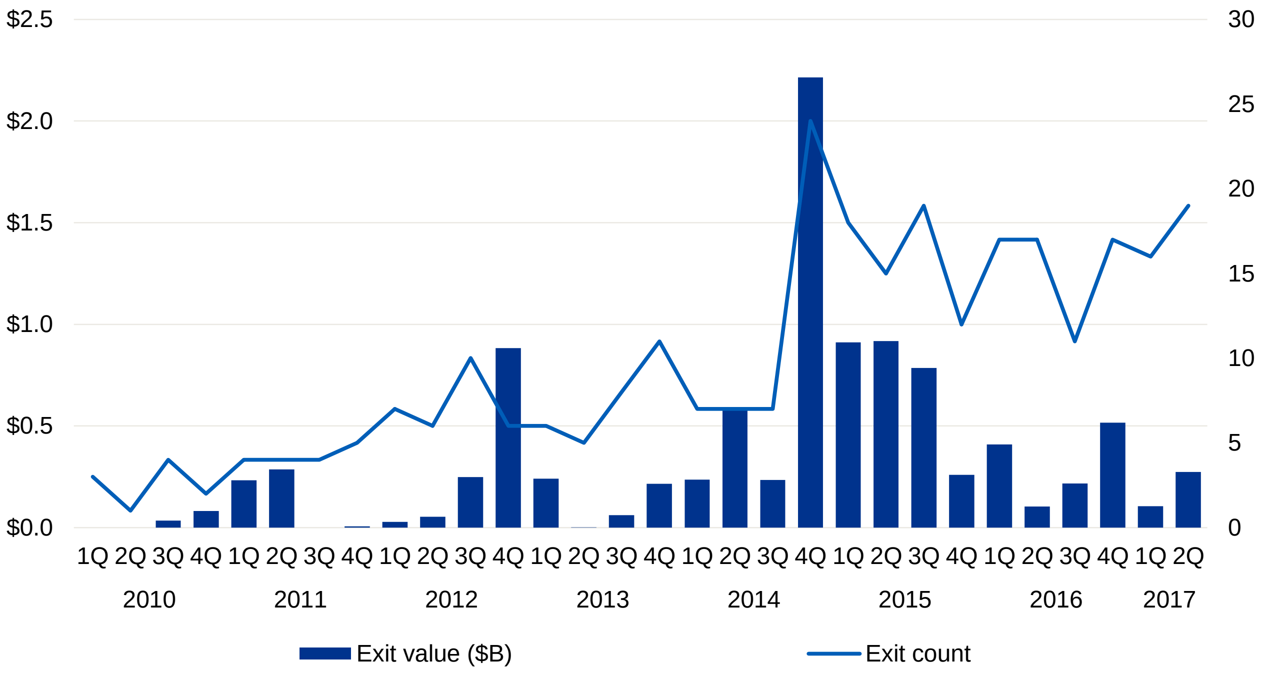
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

"There's no doubt that CVC participation is growing year over year. In Israel, there's a great incubator program for fintechs called The Floor. It's a consortium representing a diverse group of leading financial institutions and key industry players to support fintechs. You wouldn't normally find different corporates coming together in this way, to provide the necessary resources to new fintechs in order to pilot their products. This is a great example of the type of investments corporates are making in the ecosystem."

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

Exit activity perks up slightly

Global venture-backed exit activity in fintech
2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Fintech is still at a stage of development where venture-backed exit activity tallies will be more subdued than normal, as well as quite variable. That said, it does appear as if a newer normal is emerging, of steadier venture-backed selling, although outliers still skew quarterly exit values considerably.

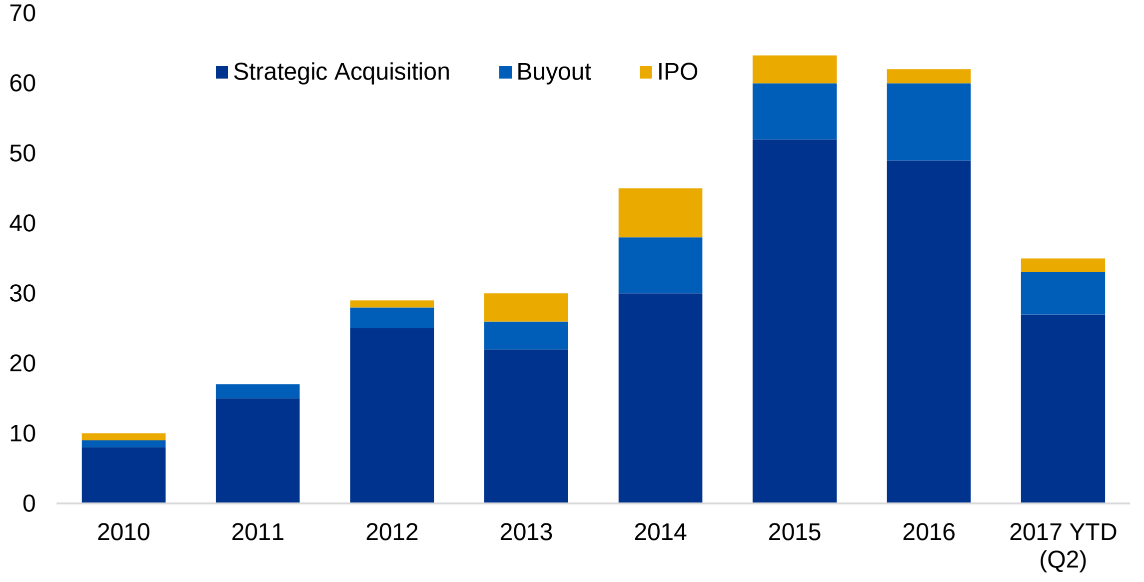
"Early on, fintech companies focused very narrowly on addressing a specific customer issue or business opportunity. Now, we are seeing that as these companies evolve, they are diversifying and expanding their product offering and geographic reach."

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

Strategic buyers still account for most exits

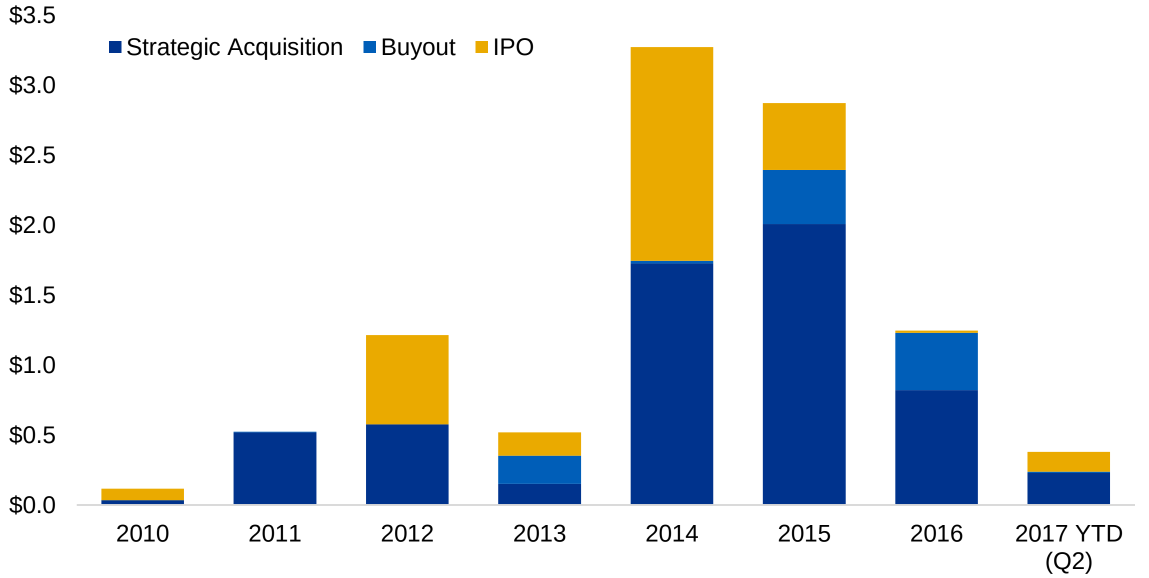
Global venture-backed exit activity by type (#) in fintech

2010 – Q2'17



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

2010 – Q2'17

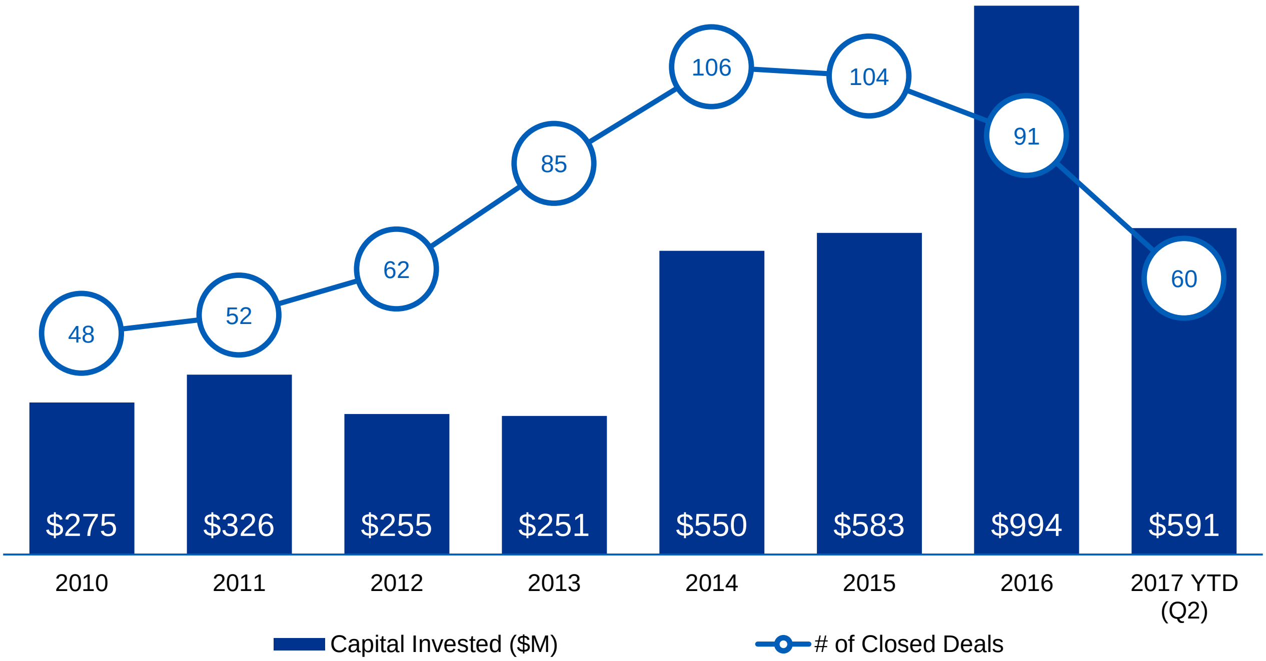


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

KPMG

Regtech on track for another record year

Global venture investment in regtech companies
2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Regtech is an intriguing space, given that from a venture investor's perspective, they rarely back a pure regulatory technology play, but rather businesses with significant regtech applications. Numbers remain strong midway through 2017, with deal activity increasing markedly from Q1'17 levels.

"Financial institutions spend a significant amount of time on regulatory compliance and reporting, with a real desire to drive efficiency using regtech, both from an operational perspective and from a cost savings perspective."

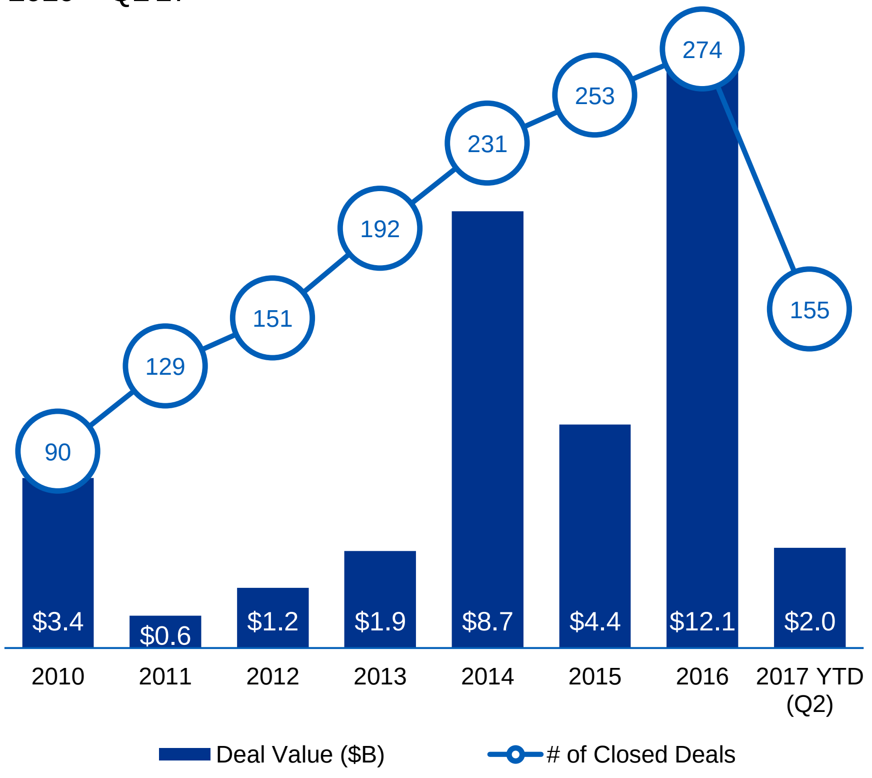
John Ivanoski
Global Head of Regtech,
KPMG in the US

KPMG

Deal volume hardly skips a beat

Global VC, PE and M&A activity in insurtech

2010 – Q2'17



Detailing overall investment in insurtech is a tricky business, given multiple large insurance businesses have extensive investment in technology. That said, various trends within the industry such as consolidation and increasing focus on segmenting out the most valuable use cases are clearly evident from analyzing overall investment, particularly when including general mergers and acquisitions. Cresting last year at 274 completed transactions for a hefty $12 billion+ in deal value, the insurtech space has seen the rate of closing transactions hardly skipping a beat in 2017, even if deal value is off pace.

Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Note: this chart details overall investment (venture capital transactions, plus general M&A activity which includes private equity buyouts) in insurtech, in a departure from the prior edition of the Pulse of Fintech, which included just venture investment in insurtech. For example, the $12.1 billion deal value total in 2016 is increased significantly by the inclusion of M&A; without that inclusion, the sum of deal value would be $1.7 billion. Please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

"As insurtech innovation continues at pace, one of the biggest challenges for incumbent insurers is whether it is possible to fully modernize a legacy insurance business. It may be more efficient to build a greenfield, purely digital insurer, migrating the existing customer base — otherwise executing on a customer centric strategy will be delayed and allow insurtechs to acquire market share."

Murray Raisbeck
Global Co-Leader of Fintech, KPMG International and Partner, Insurance,
KPMG in the UK

Growing insurtech sector tackles industry ripe for change

After 2 moderate quarters, VC investment into insurtech startups was strong in Q2'17, with $745.4 million invested across 60 deals. Despite quarterly fluctuation in deal size and volume, the overall picture is one of increasing interest and investment in insurtech innovations.

Most deals have remained small, focused on seed and Series A rounds, though larger deals are expected in coming quarters as early-stage insurtechs mature. Investors are also looking beyond the healthcare-focused US market towards startups in Europe and Asia to diversify their geographical risk and earnings profile.

Corporate investment a significant force

As insurers work to manage challenges ranging from legacy IT systems and processes to high competition and low consumer trust, insurtech innovation promises solutions and disruption in equal measure. VC and corporate investors alike seem to want to be part of the trend. While insurtech startups offer attractive diversification for fintech portfolios, heavy with banking and payments firms, corporate VCs seem to see insurtech innovations as necessary investments for the industry's future.

Corporate VC activity is already a significant force in insurtech and the influence and activity of corporates is only expected to rise. Partnerships with insurtechs and M&A activity should continue to increase as insurers seek to redefine their business and operating models to better meet changing customer needs. Corporate participation also plays a useful role in the development of the subsector by providing greater confidence to VCs in complex, industry-specific areas such as underwriting and regulated activities.

Rising trend for B2B insurtech

While early-stage insurtechs were focused on disintermediation, an increasing number of insurtech startups are building their business models around support for, or partnership with, incumbent insurers and brokers. This approach provides traditional market players with needed digital capabilities, while insurtechs gain access to distribution systems and a wider customer base. Significant traction is currently seen in front office transactions, such as the use of AI chatbots to provide an initial layer of customer interaction.

Other fintechs are looking to support the broker model. For example, Berlin-based company Wefox has created an independent service platform that allows brokers 'at-a-glance' views of customer coverage, regardless of their provider. Insurers are also interested in deploying B2C insurtech solutions for their own customer base, resulting in several B2C insurtechs pivoting to offer white-label B2B SaaS options. Other models, such as insurance aggregators and comparison sites, are also being adapted to the B2B market to provide guidance to SMEs seeking commercial coverage.

AI, big data and automation set to transform insurance processes

While VC investment in insurtech is at record levels, front office insurtechs appear to be grabbing headlines, with insurtech innovation for back office functions still on the rise. Key trends include automating the many hand-offs between legacy systems, adding API layers to connect to emerging technologies and data warehousing as well as data labeling efforts. However, an early focus on headcount improvements through process automation has yet to produce desired results, which may be largely due to the challenges of automating legacy systems and processes.

Another area ripe for transformation is claims, with incumbent insurers considering how new technologies can transform labor-intensive claims processes. Pilot programs are currently investigating how AI can assist with triage for high-volume, low-value claims.

Growing insurtech sector tackles industry ripe for change (cont'd)

On-demand insurance making waves

On-demand insurance from digital challenger insurers, such as Trov and Cuvva, is drawing market attention. An app allows customers to purchase as-needed coverage for everything from personal items to car insurance, filling a previously unmet need and providing a better fit for the sharing economy. Challenges for this niche offering include customer awareness, reduced profit margins, fraud risk and riskier client profiles, but current signs indicate an exciting future for this type of insurance.

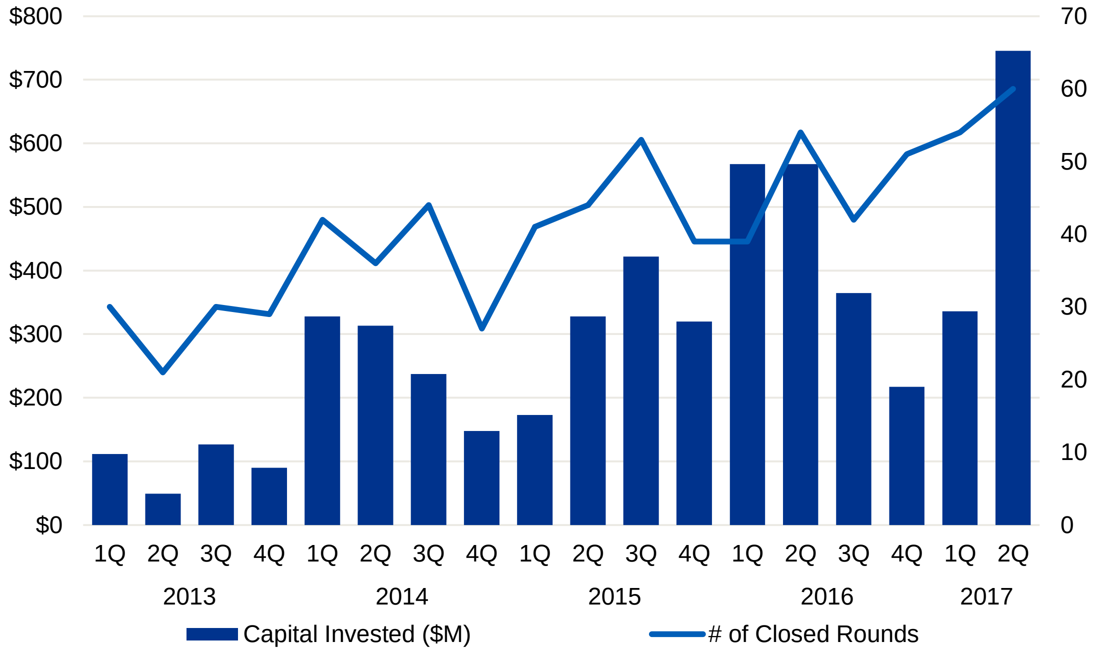
Positive future ahead for insurtech

Over the next few quarters, expect to see further development of current technologies, including AI and blockchain. The transition to voice-enabled AI is likely to become a priority, enabling insurance customers to interact naturally by phone.

On a macro level, further fluctuations in total insurtech investment is likely in coming quarters, with the overall trend accelerating upward. Given the depth of possible disruption in the insurance industry and the breadth of the total market, insurtech should be a hot sector for years to come.

Insurtech hits a new peak for VC invested

Global venture activity in insurtech
2010 – Q2'17

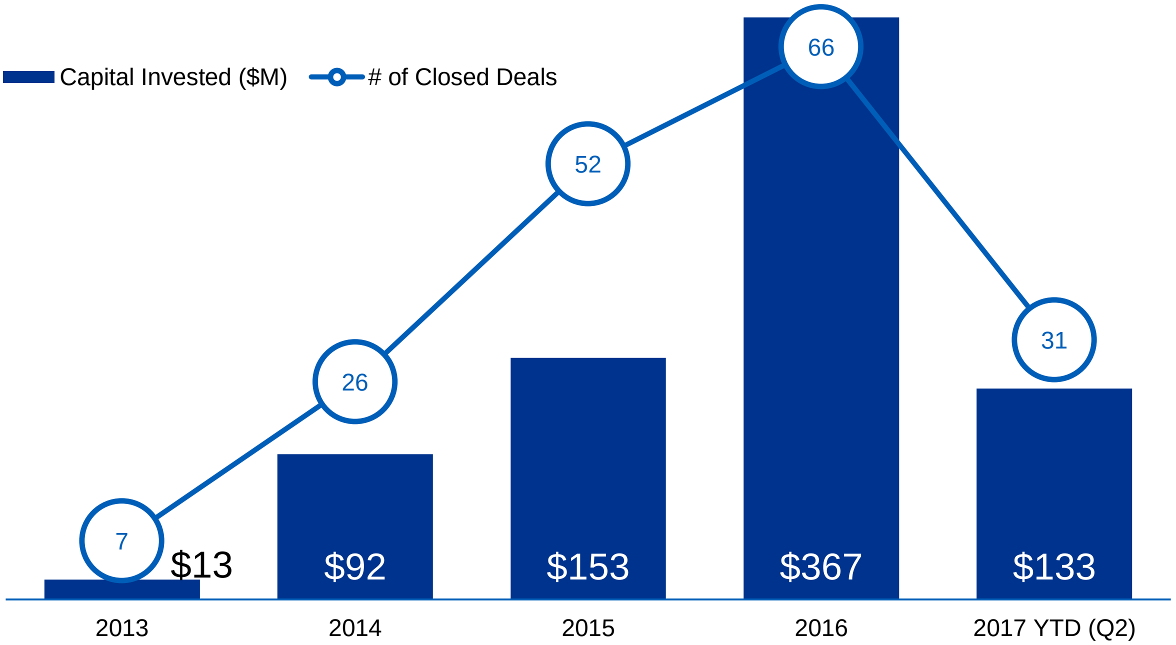


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Insurtech hit a new peak in total VC invested in Q2'17, although it should be cautioned that within any given segment of fintech, temporality plays a huge role in skewing totals. For example, the lofty total in Q2 was primarily driven by two $100 million+ financings — those of health insurance platforms Bright Health and Clover Health.

Blockchain investments starting to deliver value

Global venture investment in blockchain companies
2013 – Q2'17



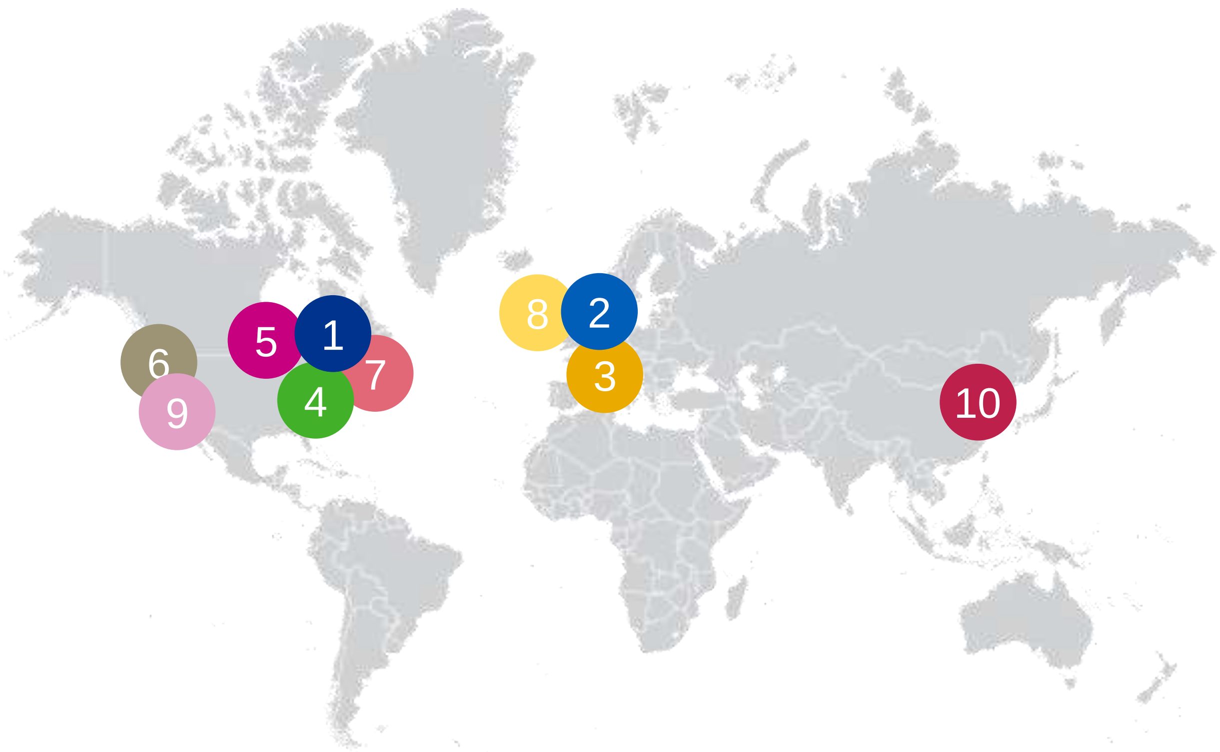
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Note: when we look at the total amount invested this year, including amounts invested into rounds that have not yet closed, the 2017 YTD figure is significantly higher. The 2017 YTD number excludes the $107M raised by R3 as this amount only makes up the first two tranches of the funding round. The third and final tranche is expected later this year. Once the final tranche is closed, the total amount invested in the completed round will be recognized in our data.

"In the rush to prove the technical capabilities of blockchain prototypes, companies have neglected the need to show how blockchain can create value. For long-term success, there needs to be an emphasis on demonstrating how a blockchain production system can enable transformative change, whether by lowering costs, lowering capital or improving the customer experience."

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

Top 10 global fintech VC, PE and M&A deals in Q2'17



1 **DH Corp.** — $3.6B, Toronto
Payments/transactions
Buyout

2 **Vocalink** — $1.1B, Rickmansworth
Payments/transactions
M&A

3 **CCH Tagetik** — $321M, Lucca
Institutional/B2B
M&A

4 **AvidXchange** — $300M, Charlotte
Payments/transactions
Series F

5 **Bright Health** — $160M, Minneapolis
Insurtech
Series B

6 **Pos Portal** — $158.1M, Sacramento
Institutional/B2B
M&A

7 **FastMatch** — $153M, New York
Payments/transactions
M&A

8 **ITRS Group** — $140.6M, London
Institutional/B2B
Buyout

9 **Addepar** — $140M, Mountain View
Wealth/investment management
Series D

10 **Ouyeel** — $140M, Shanghai
Payments/transactions
Early stage VC

Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

In Q2'17, fintech investment in the Americas hit

$5.65B

across

147 deals

Fintech investment in the Americas surges on back of US deals activity

Q2'17 saw fintech investment in the Americas surge, propelled by strong VC investment in the US and the multi-billion acquisition of Toronto-based lending and payments software company, DH Corp. VC investment in the region remained relatively stable quarter over quarter, with over $1.6 billion invested, while the number of VC deals dropped over the same period.

The US continued to garner the vast majority of fintech investment compared to other countries within the Americas. Despite this, fintech interest remains high across the region, particularly in Canada and Brazil.

Median late-stage VC deal financing drops significantly

At the end of Q2'17, median late-stage VC deal financing was $10 million — less than half of the $20.3 million median late-stage deal size experienced during 2016. This decline is likely reflective of the impact of the outlier Q2'16 investment quarter rather than any significant changes in investment trends. Meanwhile, both median early-stage and angel/seed-stage financing was up in Q2'17 from previous quarters to $8 million and $1.5 million respectively.

Corporate participation grows in Americas

VC invested with corporate involvement in fintech rose for the third-straight quarter to $700 million — the third-highest quarter of investment recorded. Corporate participation in fintech deals also increased to over 19% of all deals, following a sharp drop-off in participation during Q1'17. Traditional financial institutions and insurers across the Americas appear to have recognized the importance of innovation for their long-term sustainability, with many making direct investments in fintech companies or partnering with fintechs through accelerator or incubator programs.

Momentum for fintech remains strong in Canada

The $3.6 billion acquisition of Toronto-based DH Corp. buoyed fintech investment totals dramatically for both Canada and the Americas as a whole.[4] Outside of this deal, fintech investment in Canada was relatively weak in Q2'17, although there are no indications that this softness will linger beyond the quarter. Interest in the fintech market seems to be remaining quite high among Canadian investors, with growing interest particularly from pension funds. During Q2'17, Quebec-based pension fund, Caisse de dépôt et placement du Québec, invested $100 million in AvidXchange, a US-based payments automation company.[5]

The major Canadian banks have also continued to place a strong emphasis on fintech innovation, with several of the country's major banks developing partnerships with fintech companies in order to drive innovation and expansion of service offerings. For example, RBC has partnered with insurtech company League to underwrite new insurance offerings, while CIBC has a referral partnership with lending company Thinking Capital.[6] It is expected that these types of partnerships will only grow over the next few quarters.

4. http://www.cbc.ca/news/business/tsx-listed-dh-corp-to-be-taken-private-for-4-8-billion-1.4022308
5. http://www.charlotteobserver.com/news/business/article155060739.html
6. http://business.financialpost.com/news/fp-street/cibc-scotia-deepen-relationship-with-montreal-fintech-player-thinking-capital/wcm/0af4d816-aea6-4af1-b070-dd032de4945f

Fintech investment in the Americas surges on back of US deals activity (cont'd)

Fintech interest expected to grow in Brazil as interest rates continue to drop

Notwithstanding ongoing political upheaval, Brazil's economic crisis appears to be waning somewhat. The Brazil Central Bank continues to cut interest rates, bringing down inflation from the damaging levels experienced late in 2016.[7] Should this trend continue, it could help to improve the VC investment environment in Brazil. While investors have been slow to make deals so far this year, fintech remains one of the country's most attractive sectors.

Recently, Brazil's Central Bank launched a consultation process as part of its plan to define regulations for P2P lending.[8] These regulations, once enacted, should provide opportunities for growth in the lending space. There has also been some interest around leveraging automation for a range of activities, from working capital fund structure to receivables exchanges. Looking forward, P2P lending, AI and insurtech are expected to attract the most investor attention over the remainder of 2017.

Trends to watch for in the Americas

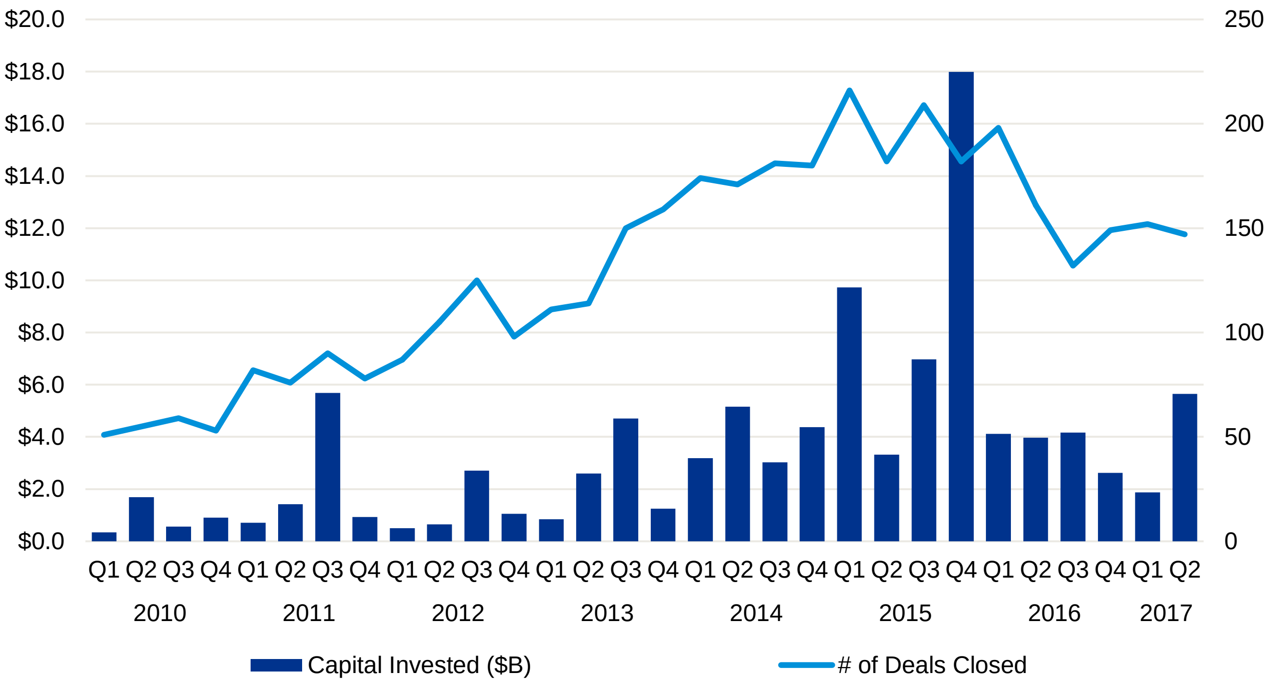
Despite a relatively soft quarter of fintech investment, outside of the massive DH Corp. deal, there appears to be growing momentum for a wide variety of fintech areas across the Americas. AI, cybersecurity, data & analytics and insurtech are all expected to remain hot areas for investors in the foreseeable future. Over the next few quarters, it is also expected that corporate investors will become more focused on finding ways to successfully integrate fintech solutions within their organizations, while maintaining strong security and privacy boundaries.

7. http://en.mercopress.com/2017/05/31/brazil-cuts-selic-rate-to-10.25-lowest-since-december-2013-slowing-inflation-and-gradual-recovery\
8. http://plus55.com/brazil-business/2017/05/brazils-central-bank-new-fintech-regulations

A new normal?

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

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

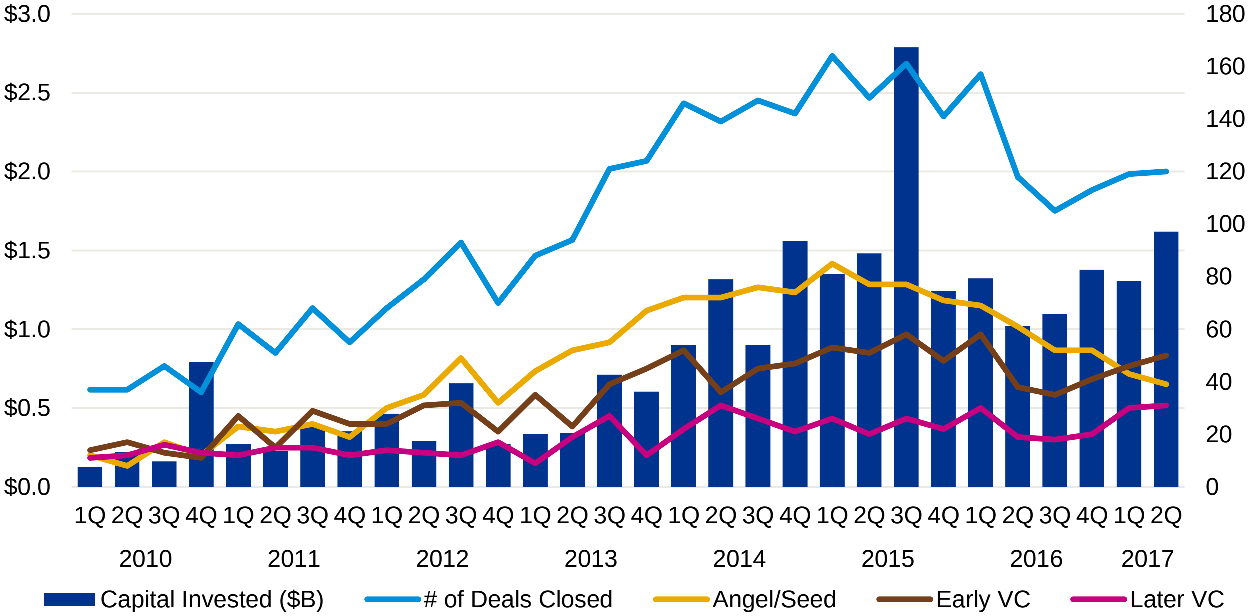
Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

After multiple active quarters, followed by a slide throughout 2016, the Americas have experienced a steadying of fintech investment volume, with a recent surge in overall value in Q2. That is largely thanks to one massive buyout by Toronto-based DH Corp., which develops lending and payments software products for banks.

Fintech remains compelling to VCs

Venture investment in fintech companies in the Americas

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), August 1, 2017.

Quarter-over-quarter, venture investment volume slid a little, but on a historical basis, it stayed quite robust, while total dollars invested also remained strong. Fintech is still able to allure plenty of investors simply because the value propositions remain too compelling, especially as relatively affluent millennials in the Americas, accustomed to convenience, look for not only smoother, more integrated payment options, but also easier ways to invest.

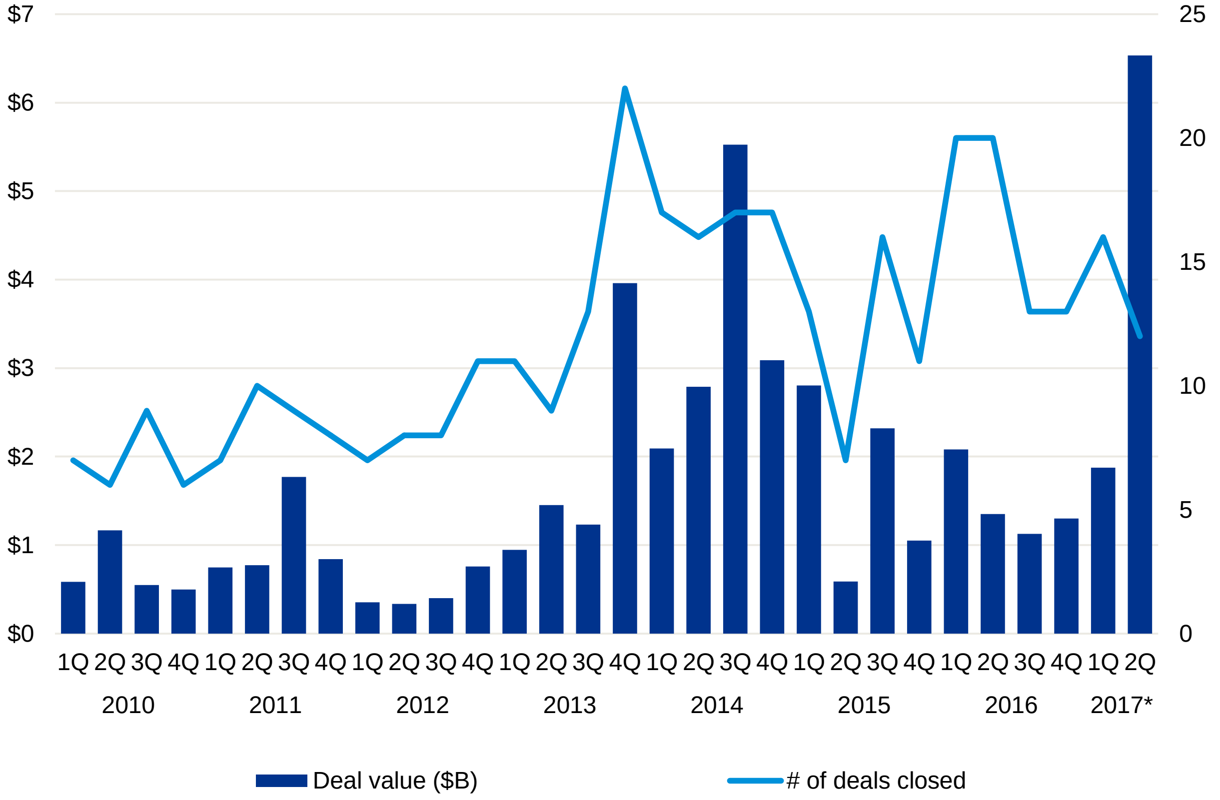
"Despite Brazil's ongoing political upheaval, inflation is starting to come down and the central bank has continued to cut interest rates. We're slowly starting to see deals again — with fintech as the most promising sector for investors right now."

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

Large PE players skew Q2 tally of deal value

Fintech PE activity in the Americas

2010 – Q2'17

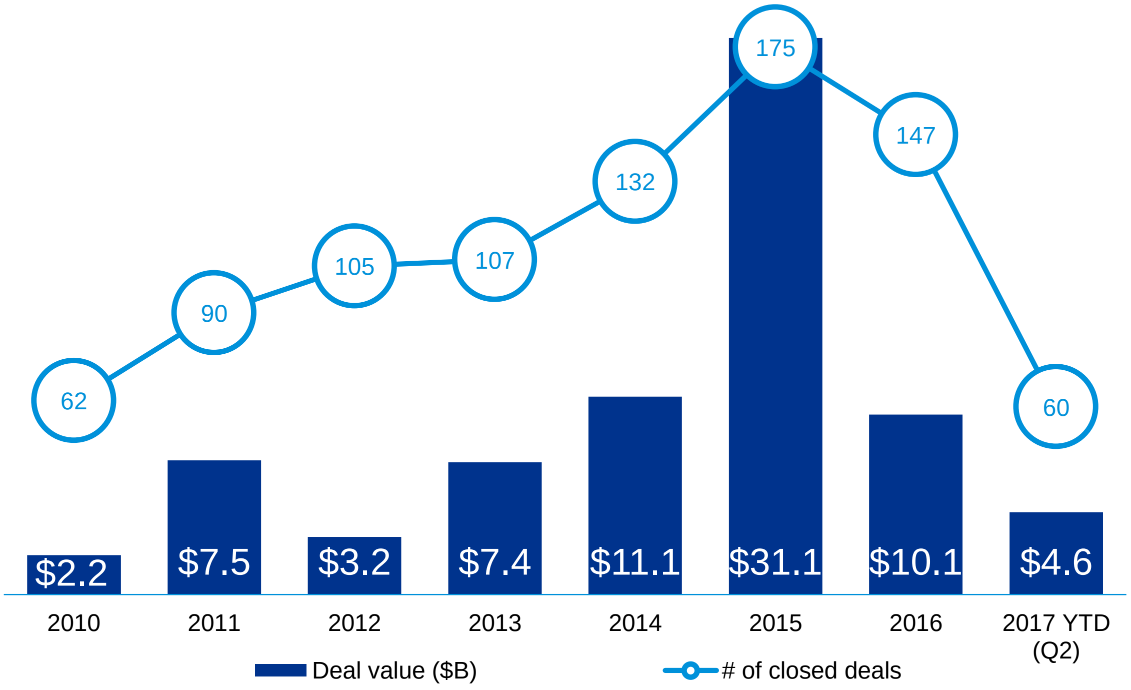


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

The largest deal of the quarter by far, DH Corp.'s buyout by Vista Equity Partners-backed Misys, skews not only Canadian figures but also deal values for all of the Americas.

Historically healthy, down from recent boom

Fintech M&A activity in the Americas
2010 – Q2'17

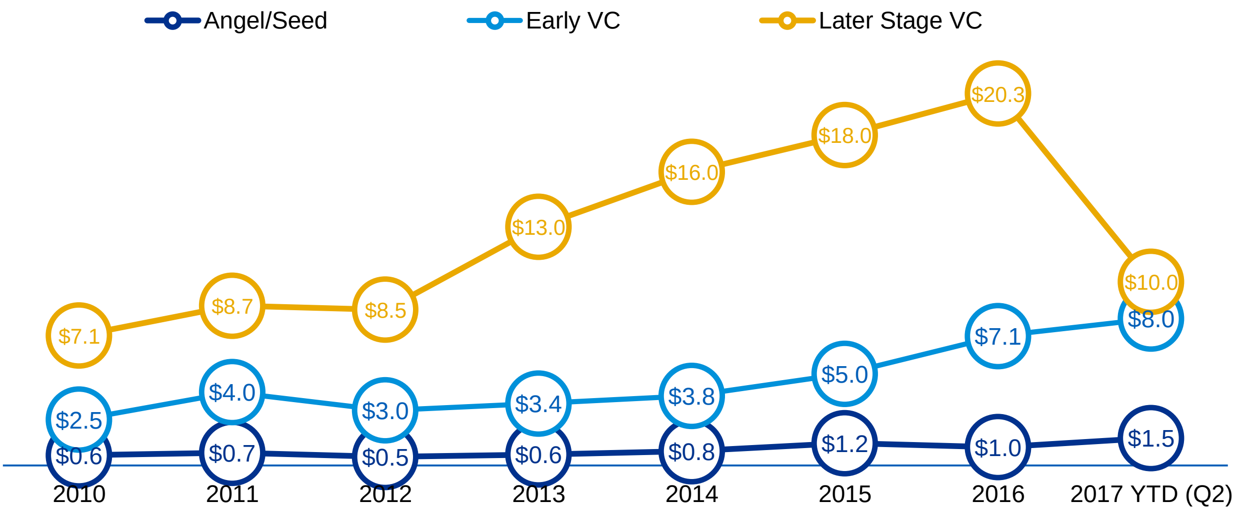


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

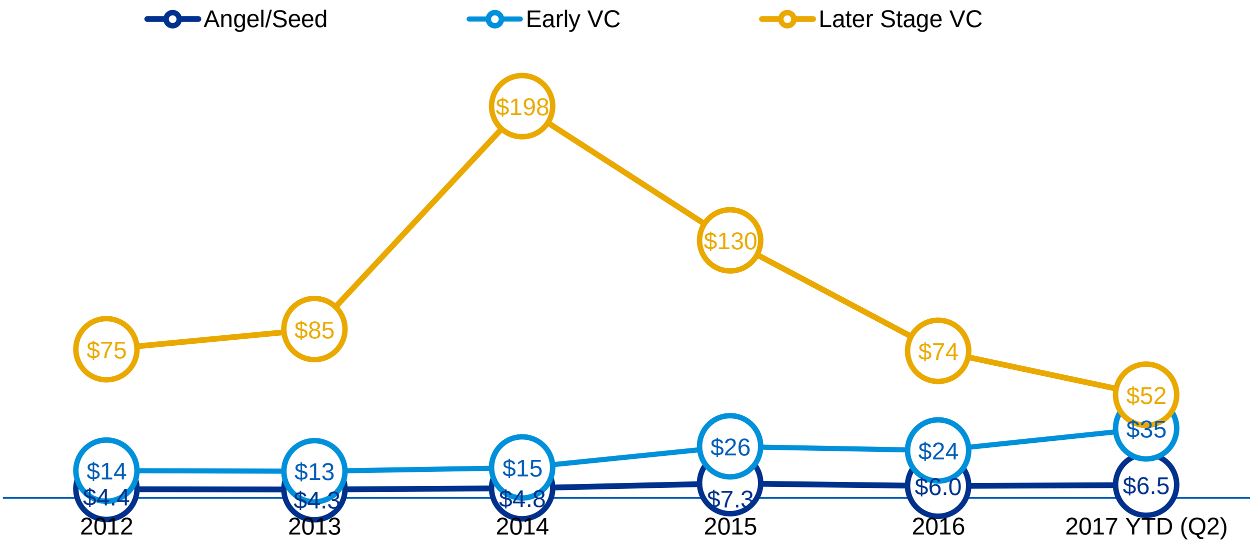
Once again, it is best to depict fintech M&A activity in the Americas on a yearly basis to show that deal value is still historically robust and activity by count is on pace to just about exceed 2013 totals, the Q2'17 numbers are impacted by the DH Corp. deal at $3.6B. That said, the slower pace as opposed to the period from 2014 to 2016 may be more symptomatic of the overall M&A boom than any fintech-specific conditions.

The late-stage continues to stay low

Median fintech venture financing size ($M) by stage in the Americas
2010 – Q2'17



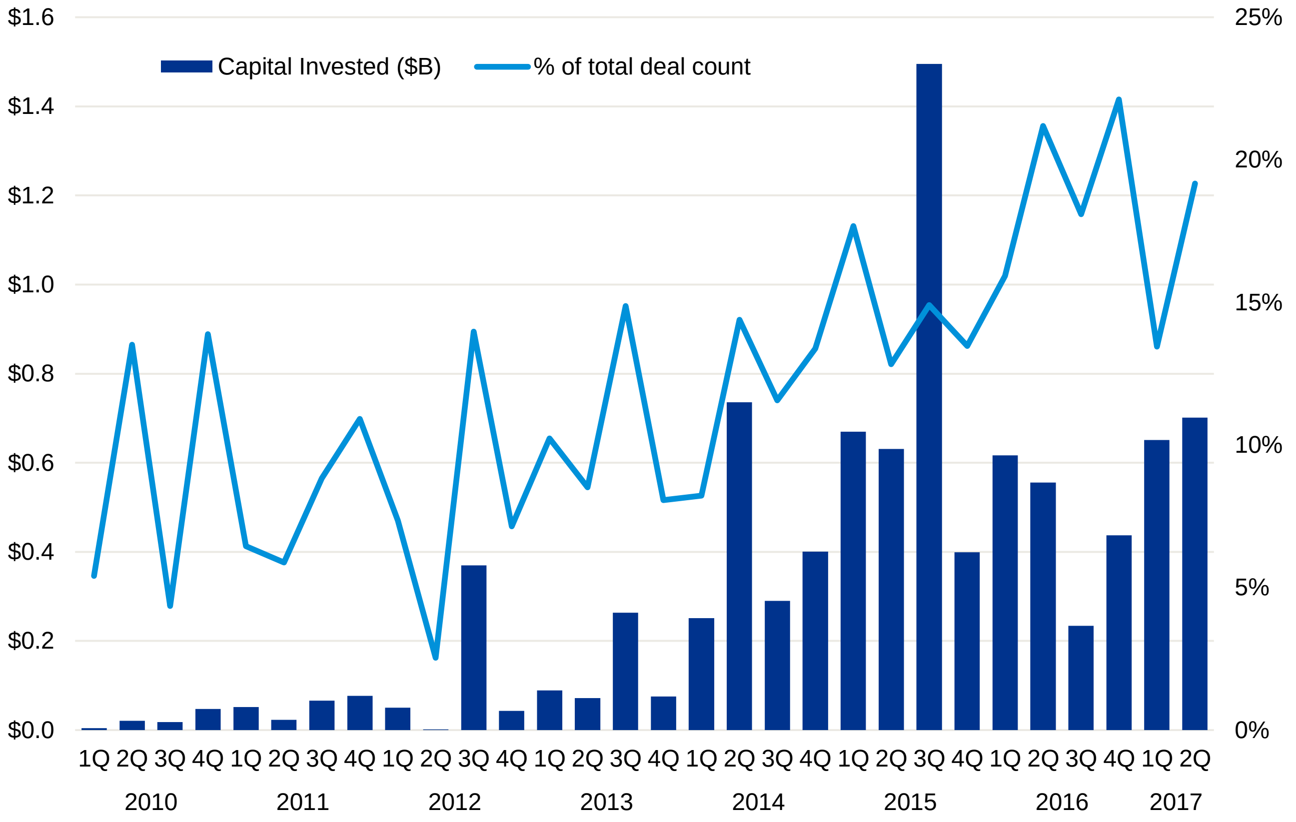
Median fintech venture pre-valuation ($M) by stage in the Americas
2012 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Corporate participation soars once more

Fintech VC activity in the Americas with corporate participation
2010 – Q2'17



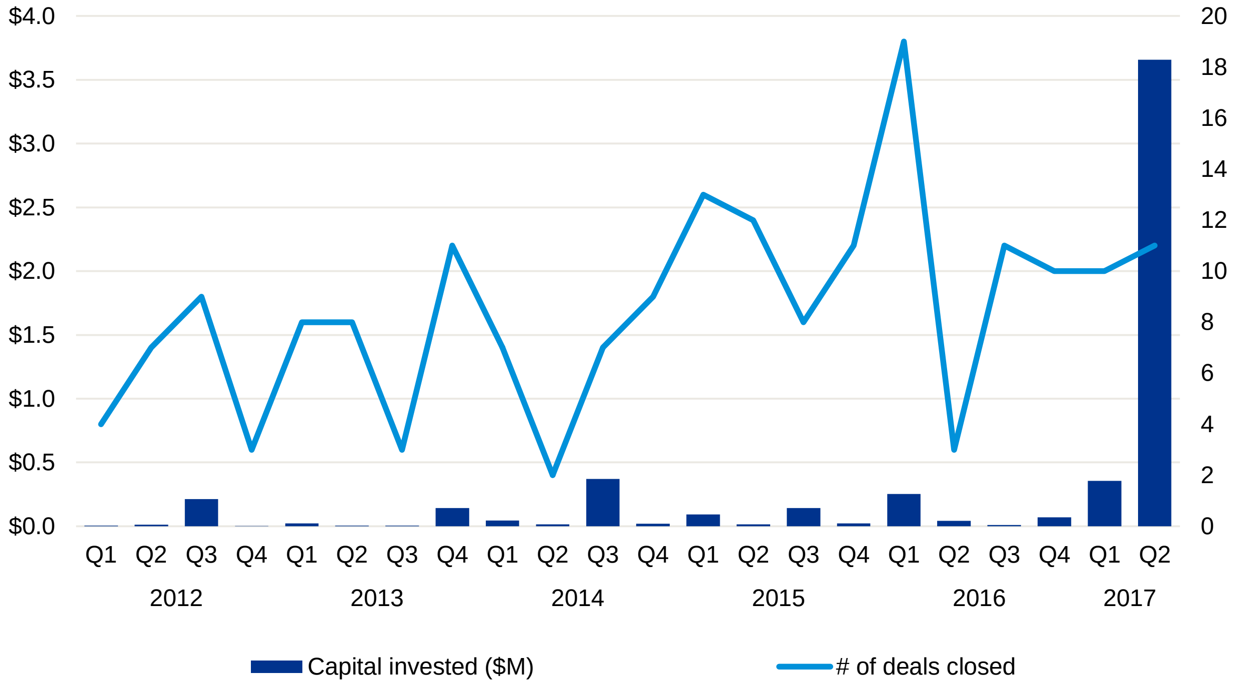
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Fintech continues to draw elevated corporate venture arm participation, not only due to its particularly critical nature to financial institutions, but also to its appeal to corporations looking to extend their suite of services in an organic manner. For example, there are few pure regtech plays, but financial institutions that are looking to bolster the automation of their compliance processes may well back a startup targeting that arena, in order to roll up its technology into their offering.

M&A value once again driven by a single deal

Fintech VC, PE and M&A activity in Canada

2013 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

Few things illustrate how fintech is still a developing sector, prone to significant skew, as one multibillion-dollar transaction; the acquisition of Toronto's DH Corp. for $3.6 billion in Q2'17, next to which all prior quarterly deal values pale.

"Corporate investors in Canada have moved beyond thinking 'fintech is cool, let's invest'. Now, corporate investors are focused on the details of how to successfully integrate fintech into their operational ecosystems, while maintaining security and privacy."

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

In Q2'17, US fintech companies received investment of

$2.0B

across

129 deals

Second-strongest quarter ever for VC investment in US fintech market

Total fintech investment in the US rose during Q2'17, assisted by a strong increase in VC funding during the quarter. VC funding accounted for over $1.5 billion across 104 deals, making it the second-strongest quarter ever for VC investment in fintech. Fintech M&A activity continued to be weak during the quarter, potentially a result of the cyclical nature of the M&A market, following on the heels of a strong 2016.

Big hits in back office technologies and wealth management

Fintech investment in the US experienced a shift in Q2'17, with investor interest focusing on fintechs that help to improve the effectiveness and efficiency of mid and back office functions, as compared to customer-facing, front office solutions. Of the top 10 deals during the quarter, four were focused on the B2B market, rather than on customer-facing initiatives, including Pos Portal ($158m), Cadre ($65m), Alkami Technology ($63m) and Billtrust ($50m). A growing number of fintech companies and fintech investors appear to have realized that creating solutions that can maximize the effectiveness of traditional financial institutions can lead to more sustainable success than other fintech models.

Wealth management was also a hot area of investment in Q2'17, with both Robinhood and Addepar raising $100 million+ funding rounds.

Corporate participation jumps significantly

The percentage of overall deal count with corporate participation in fintech-focused VC deals jumped significantly, from less than 14 percent in Q1'17 to almost 21 percent in Q2'17. Similarly, the amount invested by with corporate participation also increased to $680 million, the third-highest quarter of corporate fintech investment recorded.

Angel and seed-stage deals continue to decline

Q2'17 saw a continued decline in angel- and seed-stage fintech deals in the US, with just 36 deals, compared to a peak high of 75 in Q1'15. This decline reflects a similar trend experienced in the broader VC market. At the same time, early-stage deals volume increased during the quarter, while late-stage deals remained relatively steady.

Fintech companies expanding reach and breadth of services

One recent trend in the fintech market has been a shift in thinking among more mature fintech companies. While many companies have succeeded by focusing on individual issues or customer pain points, more mature fintechs are now beginning to branch out in order to build their business. Some companies are doing this by focusing on geographic expansion, while others are expanding their core capabilities. Wealthfront, for example, has branched into educational savings, while SoFi recently applied for a banking charter.[9] Many VC investors are willing to support these expansion initiatives, as they can help make fintechs more attractive, whether from an exit perspective or to drive partnerships with traditional financial institutions.

Even within existing fintech verticals, companies are expanding offerings to meet a more diverse range of customers. This is particularly true for corporates looking to create better value through the use of AI. While many wealth management solutions have focused on millennials and lower net worth individuals, several financial institutions have come to recognize the benefits AI and robo-advisory can offer to higher net worth clients as well.

Trends to watch for in the US

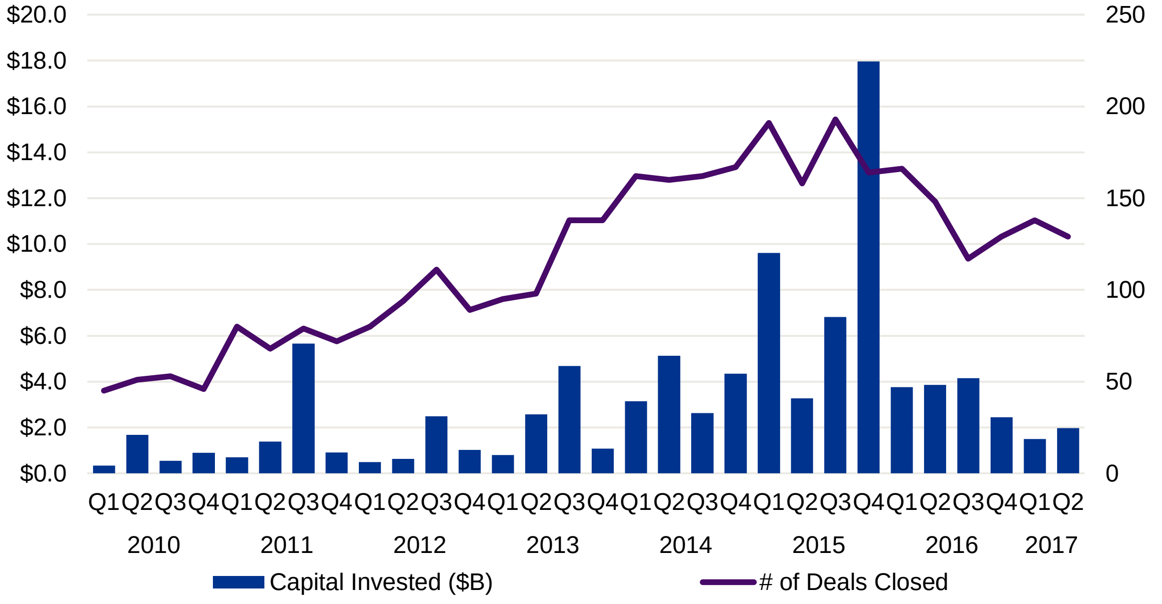
Looking forward, the outlook appears very positive for fintech investment in the US, particularly over the long term. In the short term, there may be some caution as a result of a number of macroeconomic issues, including the expectation of rising interest rates.

Over the next few quarters, interest in solutions that can facilitate the automation of mid and back office banking applications is expected to grow substantially, in addition to interest in blockchain and regtech. While interest in software-as-a-service (SaaS) fintech solutions has grown over the past few quarters, interest is expected to accelerate in the months ahead. Over the next 2 to 3 years, there is likely to be an even more aggressive push toward apps into the cloud, particularly as financial regulators become more comfortable with cloud-based services.

9. https://www.housingwire.com/articles/40479-lenders-join-together-against-sofi-banking-move

The pace of investing steadies, as value stays low

Total US fintech investment activity (VC, PE and M&A) in fintech companies
2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

In another sign that the boom period in fintech investment from 2014 and 2015 was more a product of exuberance in both the venture industry and M&A deal-making than anything else, investment volume in fintech has steadied over the past several quarters in the US. Deal value may still be staying lower than in multiple prior quarters but again, that is a testament to the fact that the fintech ecosystem is still developing and, as seen in the case of Canada in Q2'17, can be skewed massively by one transaction.

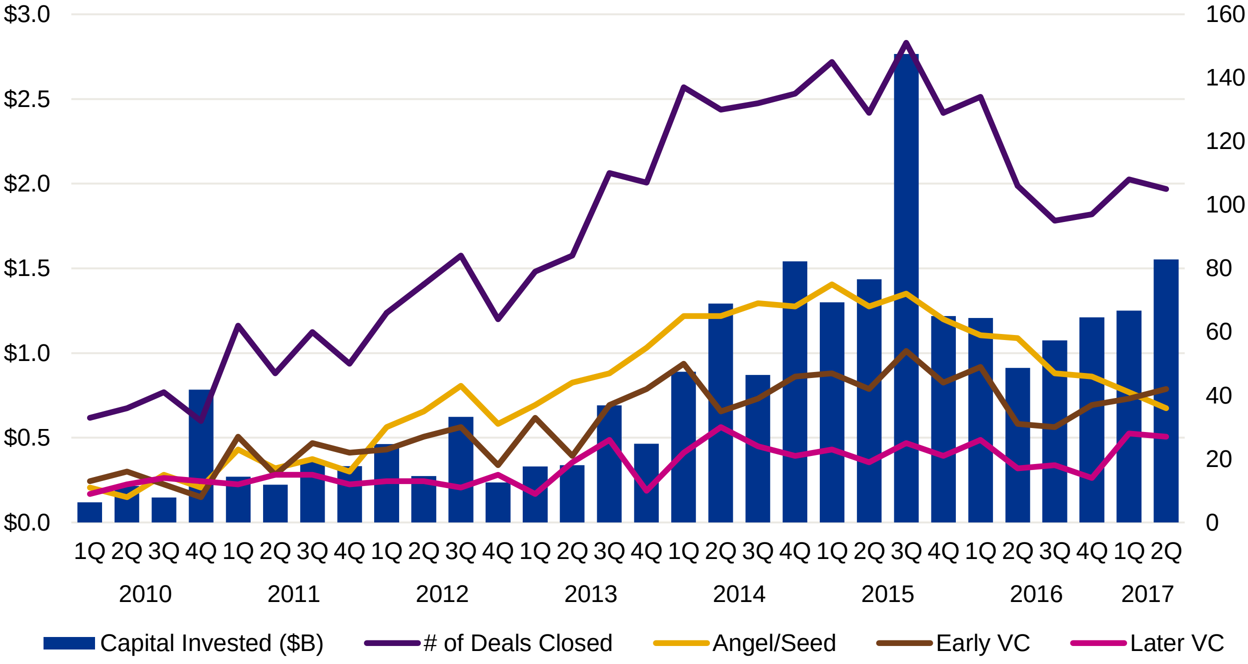
"Looking ahead, we're likely going to see increasing demand for tech disruptors in the US, particularly those solutions that can automate mid and back office banking applications. There will be an increased appetite for solutions that use AI, cognitive agents, and smart workflow solutions that remove friction, such as manual and repetitive tasks, delays and inconsistent and high error rates, inherent across mid and back office applications."

Safwan Zaheer
Director, Financial Services
Digital and Fintech,
KPMG in the US

Late-stage continues at elevated volume

Venture investment in fintech companies in the US

2010 – Q2'17



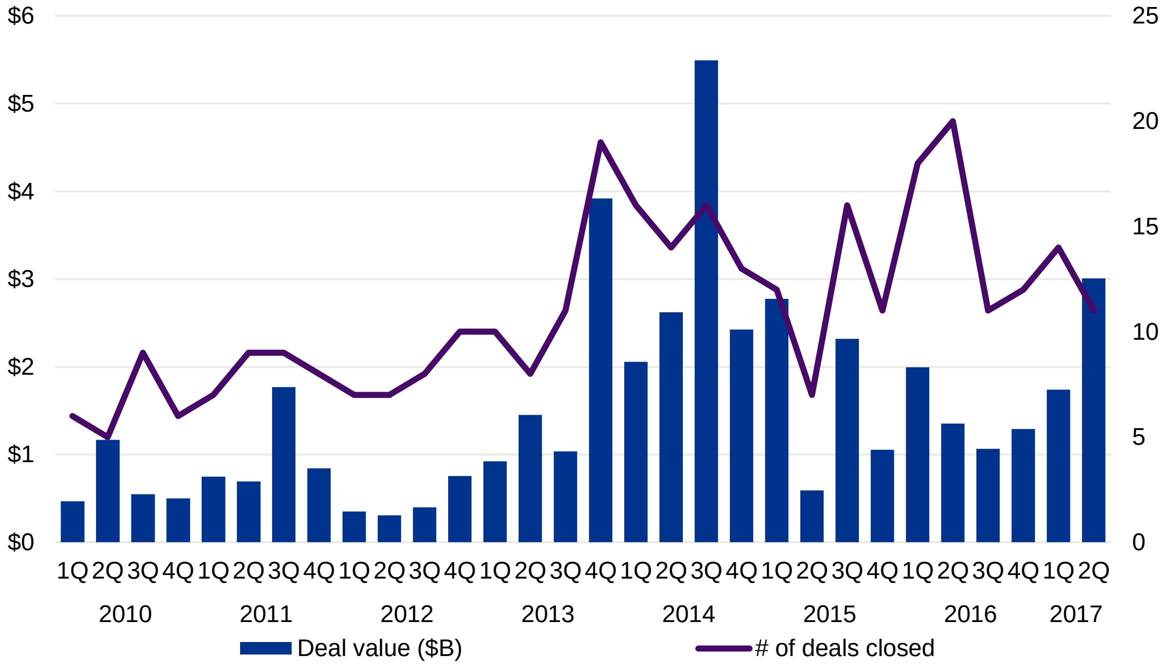
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

The decline in fintech VC investment volume is due primarily to the industry-wide slide in completed angel or seed transactions, more than anything else. Late-stage financings are still holding at an elevated volume, helping to boost total VC invested tallies considerably.

PE firms enter plateau of activity

Fintech PE activity in the US

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

PE investment in the technology sector is generally growing rapidly, at 19 percent of overall PE deal volume in the US as of mid-2017. Accordingly, it is of little surprise that PE firms are also staying active in the fintech segment.

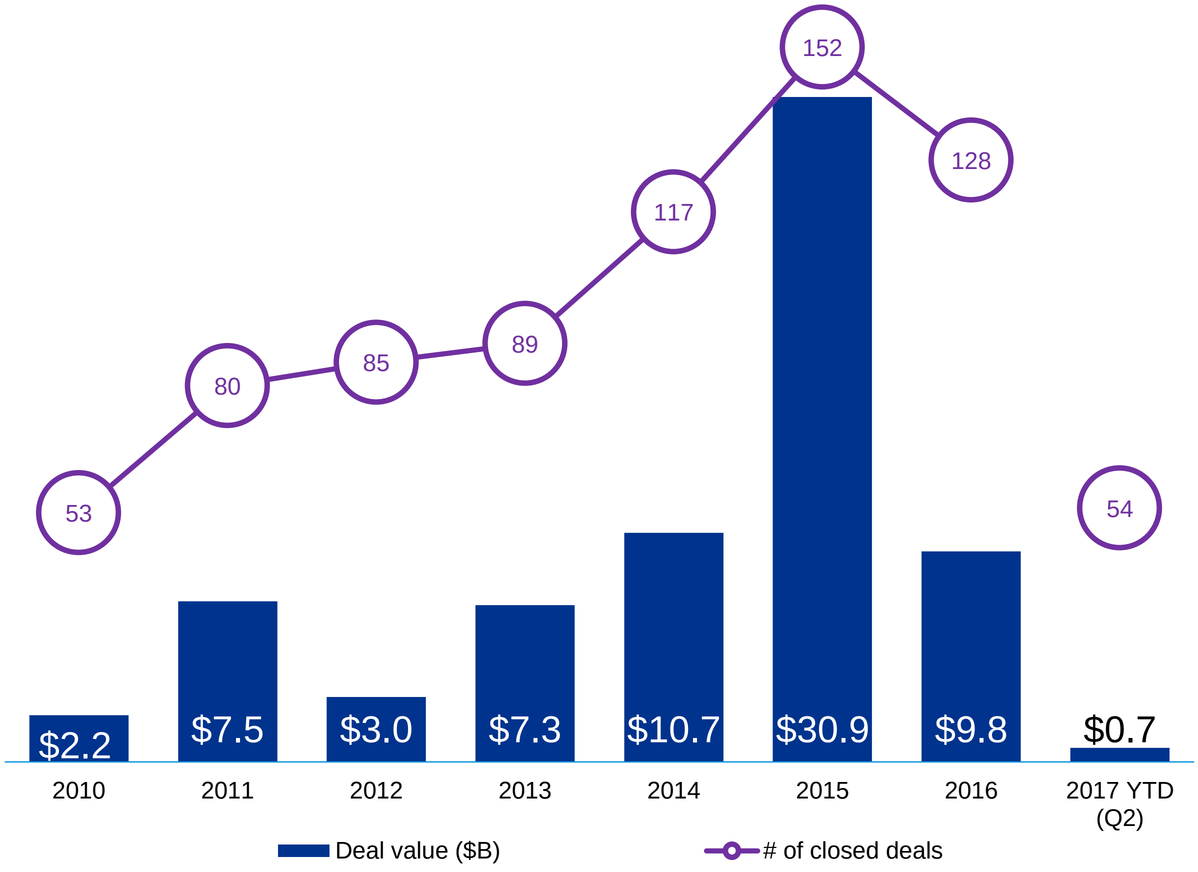
"Moving forward, fintech adoption by banks in the US is expected to become more than a playground for intellectual brain food. Fintech adoption should become a key strategic market differentiator."

Sigrid I Seibold
Partner,
Financial Services,
KPMG in the US

A temporary pause extends

Fintech M&A activity in the US

2010 – Q2'17



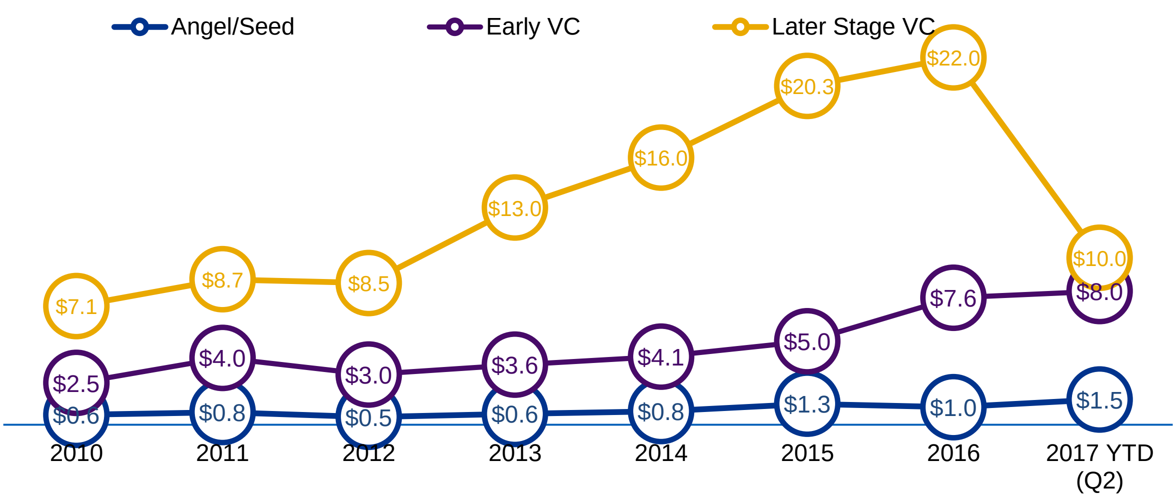
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Timing will still play a role in overall fintech M&A and it is important to note that the slow decline in global M&A is likely to play out on a regional basis as well. That said, the current declining levels of fintech M&A in the US could also be due to a natural cyclical lull, as the most active strategic buyers look to pause and digest their recent spate of acquisitions.

Late-stage valuations have aligned toward early -stage

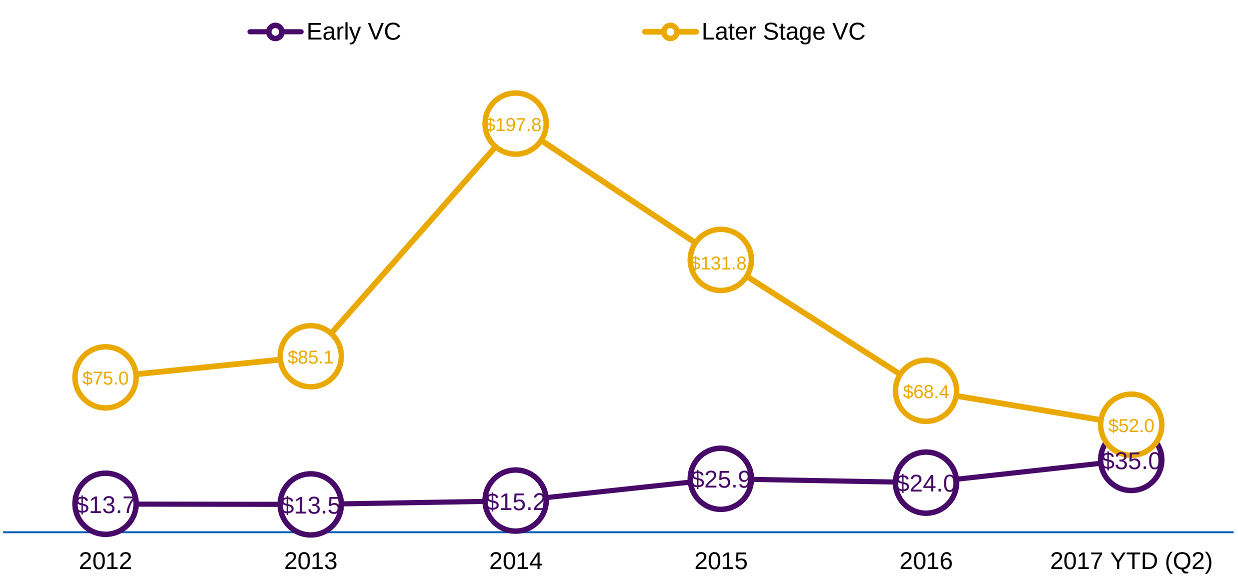
Median fintech venture financing size ($M) in the US

2010 – Q2'17



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

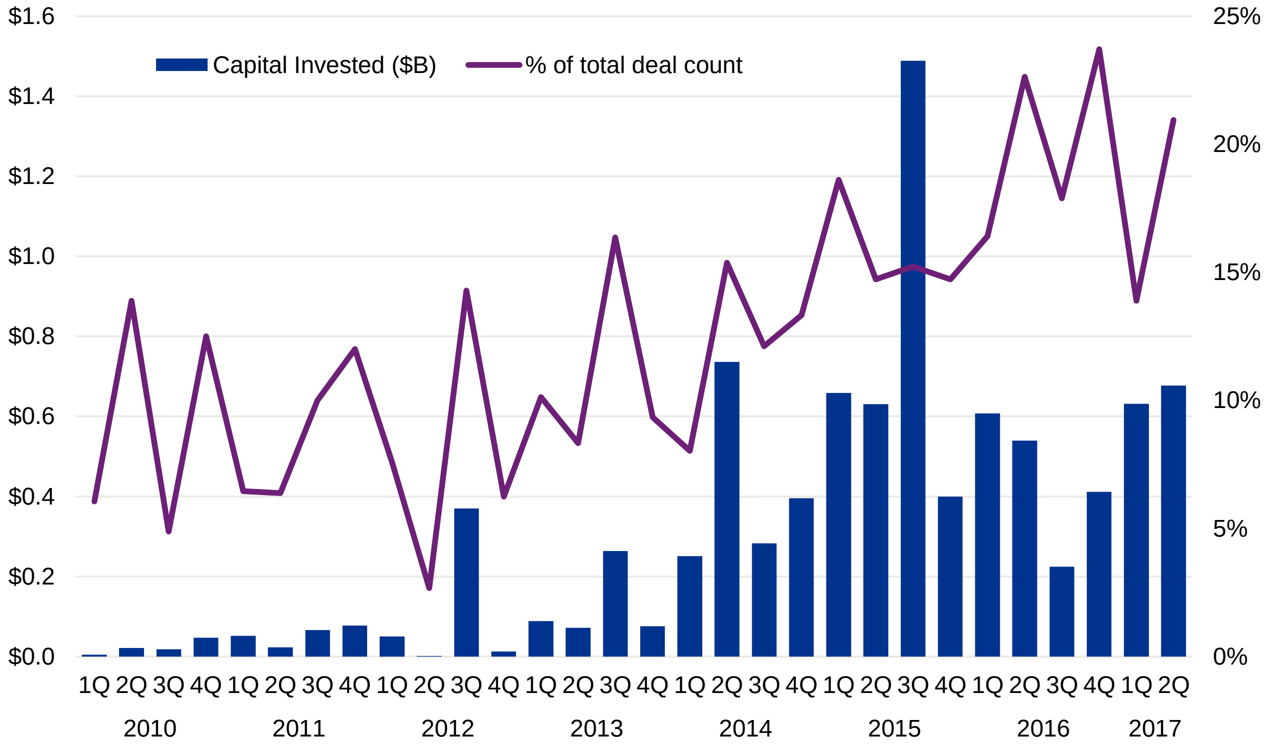
2012 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Resurgence in CVC involvement

Fintech venture capital activity in the US with corporate venture participation
2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

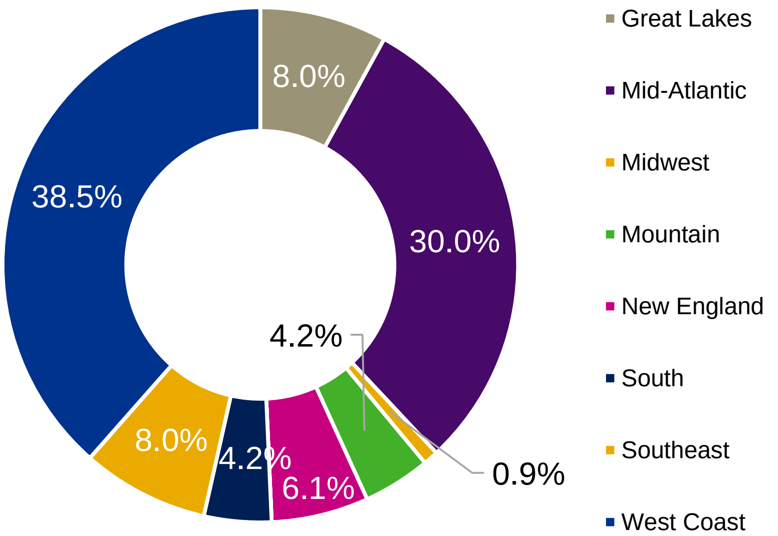
"There seems to be a strong push into B2B asset management, with many fintechs looking at how to help institutional investors with big portfolios, source talent and manage their activities more effectively."

Ann Armstrong
Emerging Technology and
Financial Services Partner,
KPMG in the US

VC remains concentrated in traditional hubs

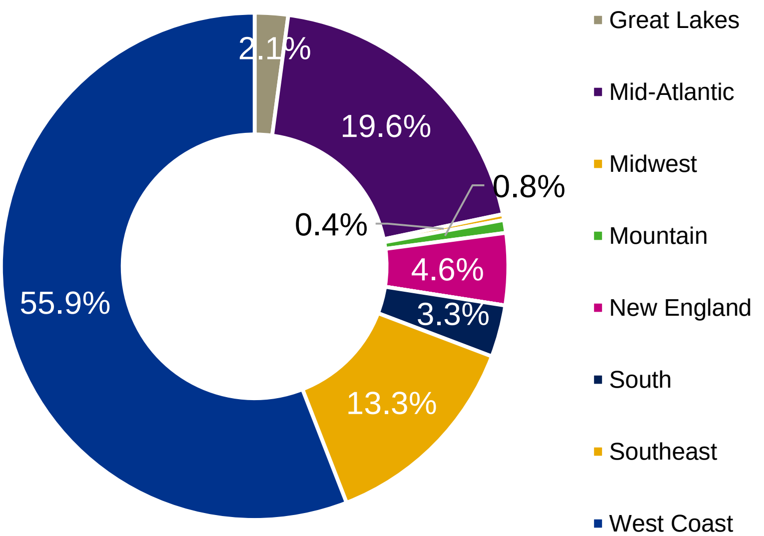
Fintech venture investment (#) in the US by region

H1'17



Fintech venture investment ($) in the US by region

H1'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

First-time VC invested on pace for record

First-time financings of fintech companies in the US

2010 – Q2'17

In line with the general US rate for first-time financings, the volume of first-time funding rounds of US fintech companies is definitely on a downward trend. That said, VC invested via first-time financings already stands at a hefty $184 million, on pace to record the highest total yet. This could be attributable to the confluence of a few disparate trends: the increase in risk aversion by VC investors, the surplus of capital commitments firms still have to put to work and the maturation of certain fintech segments.

Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

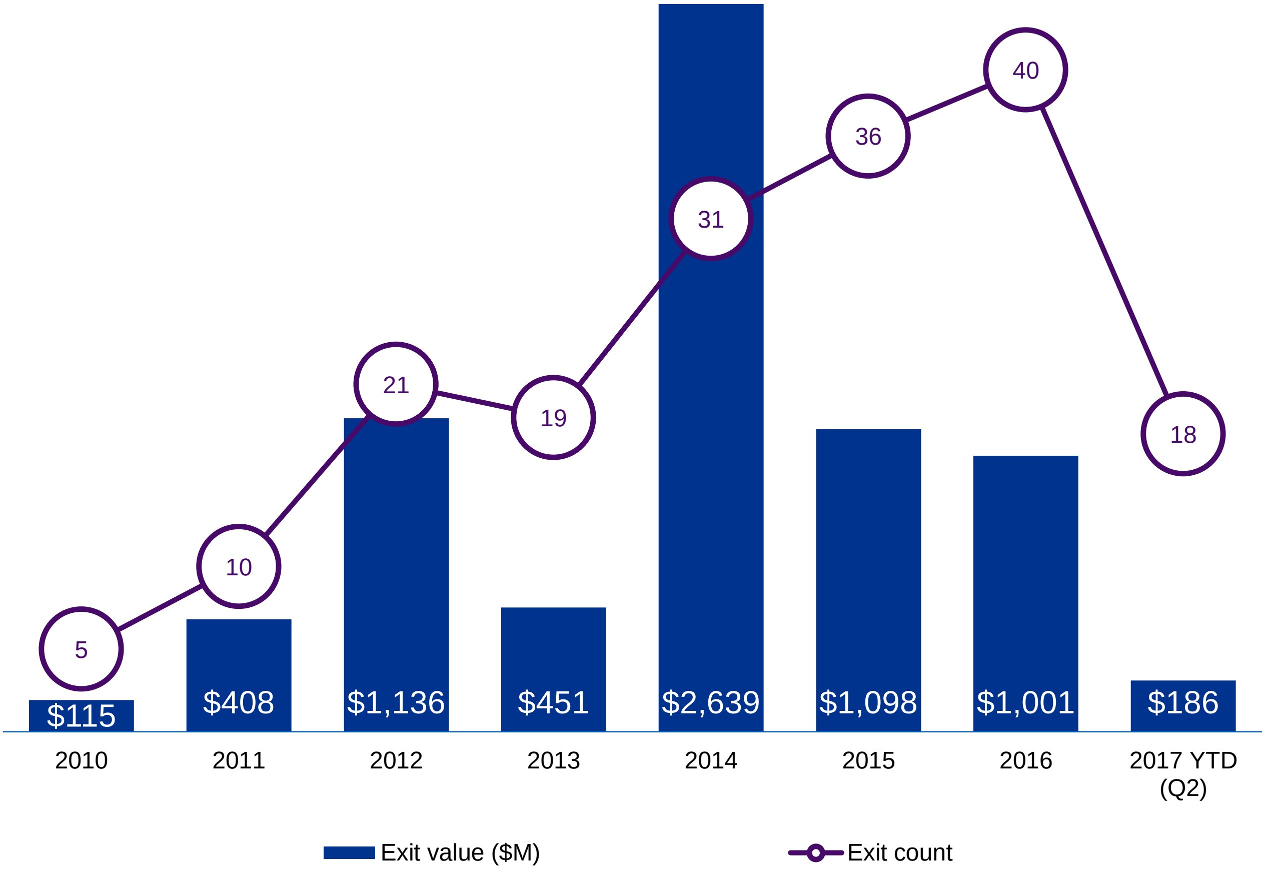
"The small and medium-sized business market in the US continues to be underserved by many, including by the providers of financial services. The fintechs that can address the market by leveraging data & analytics and machine learning have a massive opportunity."

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

Recent strength in exits portends well

Venture-backed exits of US fintech companies

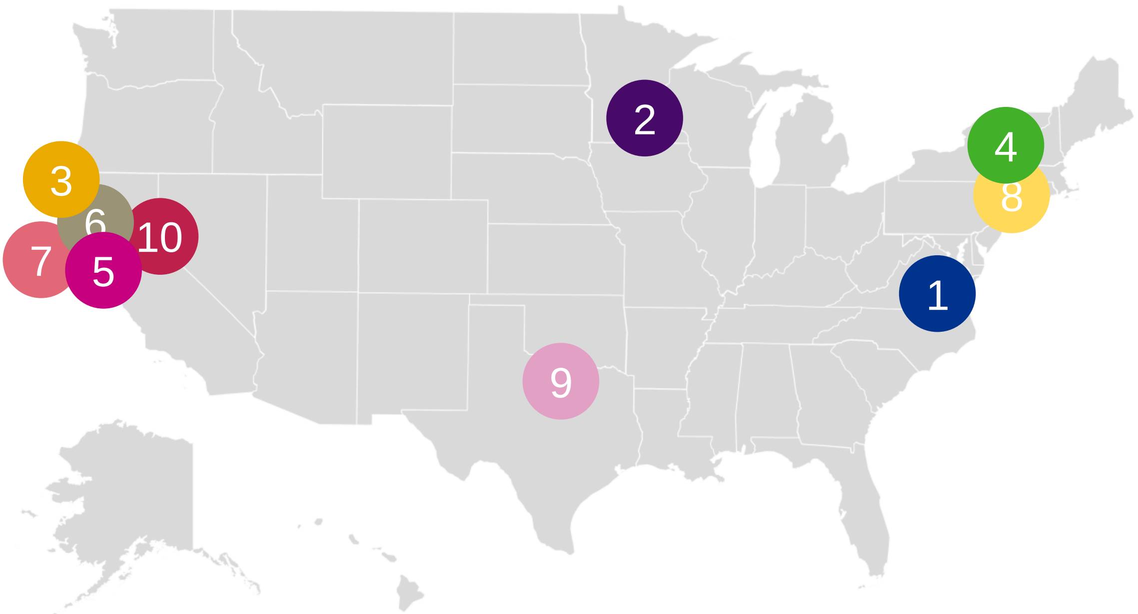
2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017

Until this year, venture-backed fintech companies exited at a steadily rising clip, boding well for early backers that were seeking liquidity. Although this year's pace isn't quite that of that seen last year, exit value remains quite low, which can be chalked up to timing and the fact that the past 3 years were so highly lucrative; all the portfolio companies best-positioned to exit likely did so in that timeframe. Looking forward, exit value is likely to resume after a cyclically driven down period.

Top 10 US fintech deals in Q2'17



1 **AvidXchange** — $300M, Charlotte
Payments/transactions
Series F

2 **Bright Health** — $160M, Minneapolis
Insurtech
Series B

3 **Pos Portal** — $158.1M, Sacramento
Institutional/B2B
M&A

4 **FastMatch** — $153M, New York
Payments/transactions
M&A

5 **Addepar** — $140M, Mountain View
Wealth/investment management
Series D

6 **Clover Health** — $130M, San Francisco
Insurtech
Series D

7 **Robinhood** — $110M, Palo Alto
Personal finance
Series C

8 **Cadre** — $65M, New York
Institutional/B2B
Series C

9 **Alkami Technology** — $63.2M, Plano
Institutional/B2B
Series C

10 **Upgrade (US)** — $54.25M, San Francisco
Personal finance
Series A2

Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

In Q2'17, investment in fintech companies in Europe hit

$2.0B

across

90 deals

European fintech activity normalizes after strong first quarter

After strong first quarter results, driven by late-stage deals, VC investment in European fintech decreased in Q2'17 to more expected levels. Total VC investment was at $370 million across 62 deals, down from the first quarter's $712 million. With attention and activity holding steady heading into Q3, VC investment totals look likely to surpass 2016's numbers, despite early indications that investors appear to be more selective.

European PE investment has remained strong, while corporate VC investment from major financial institutions continues to grow.

Insurtech investment heating up

The significant opportunities in the insurance industry continue to drive startup activity and investor interest alike in the growing insurtech subsector. The top deal of the quarter was from Swedish mobile micro-insurance firm, BIMA, which raised $55.2 million in Series C funding, while UK-based challenger insurer, Gryphon Group Holdings, attracted $229 million in PE funding. Despite the fragmented insurance market in Europe, ongoing seed- and small Series A funding rounds, especially in the UK and Israel, make insurtech a hot area to watch.

Looming PSD2 deadline spurs fintech and regtech activity

The fast-approaching 2018 implementation deadline of the EU's revised Payments Services Directive (PSD2) appears to be driving considerable fintech and regtech investment. Startup activity can be seen primarily on two fronts: API development and the creation of niche offerings that leverage open banking data, especially tools that provide insight into personal spending habits.

While some fintechs are likely looking to disintermediate banks from their customers through the provision of value-added services, others are looking to support the banks themselves. B2B-focused fintechs such as Token, Figo and NDGIT are helping financial institutions develop API offerings and platforms to compete effectively in the new world of open banking.

B2B activity increasing as consumer-focused fintechs pivot

As seen in regtech, and in line with the global trend, activity and investment in B2B fintech is increasing. Startups are acting as a catalyst for corporate innovation as both banks and insurers look to improve their digital performance and capabilities. Front office solutions remain popular, such as Blackbase's AI-driven banking chatbot, though fintech activity is noticeably increasing across back office functions as well.

Companies such as Five Degrees from the Netherlands are gaining attention for creating platforms to connect back office legacy systems to customer-facing systems and apps, external financial ecosystems, and regulatory services. In addition to new B2B-focused startups, other fintechs have been seen adapting their B2C offerings to survive or differentiate in crowded markets. One example is Frankfurt-based Vaamo, which has transformed its B2C investment robo-advice solution into a B2B robo-advice platform, able to integrate into major banks' value chain.

Fintechs pursue banking licenses

Swedish payments firm Klarna made headlines this quarter by obtaining a banking license, positioning itself as a digital challenger bank along the lines of Starling Bank and Monzo. Dutch payments firm Adyen also received a pan-European banking license in Q2'17, enabling it to maintain greater control over payments processing and achieve faster turnarounds .

Other established P2P lending platforms appear to be close behind. UK-based, Zopa announced in November 2016 it was applying for a banking license and this quarter, raised $40 million in late-stage VC funding. These are seen as logical next steps for established or maturing fintechs, and will likely enable them to pursue further growth through expansion of their business models.

European fintech activity normalizes after strong first quarter (cont'd)

P2P payments make headlines, despite rumblings of consolidation

Irish fintech startup Plynk turned heads this quarter with its Series A raise of $28.05 million, one of the largest Series A rounds in Irish history. This attention to Plynk's chat-based P2P Payments app comes in spite of earlier concerns that the crowded P2P lending and payments space will soon begin to consolidate.

The expected consolidation appears to have slowed however and fintechs seem to have begun working together to adapt and survive. A growing trend in the UK and elsewhere is for smaller, specialized B2C fintechs to form partnerships with other similar startups, allowing them to offer new options to consumers and compete on a larger scale.

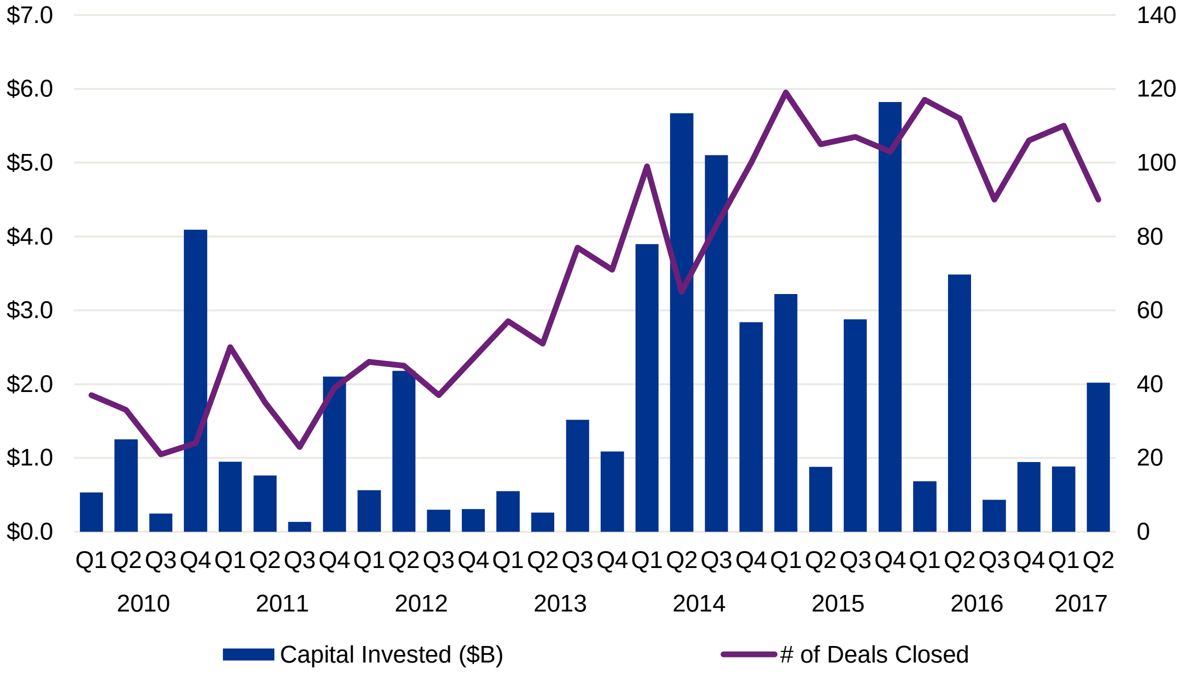
Positive signs for the remainder of 2017

Ongoing activity points to a strong Q3 for European fintech. PSD2, as well as the upcoming implementation of the EU General Data Protection Regulation (GDPR), should encourage further prominence and visibility of regtech, risk/compliance solutions and open banking solutions across Europe. Blockchain, digital currencies and insurtech are also expected to remain attractive investments.

Brexit negotiations continue to progress, the outcomes of which may result in significant changes to the regulatory landscape. Despite disruption, such changes may lead to new areas of opportunity for fintech innovation and investment in years to come.

Persisting at an elevated level overall

Total European fintech investment activity (VC, PE and M&A) in fintech companies
2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

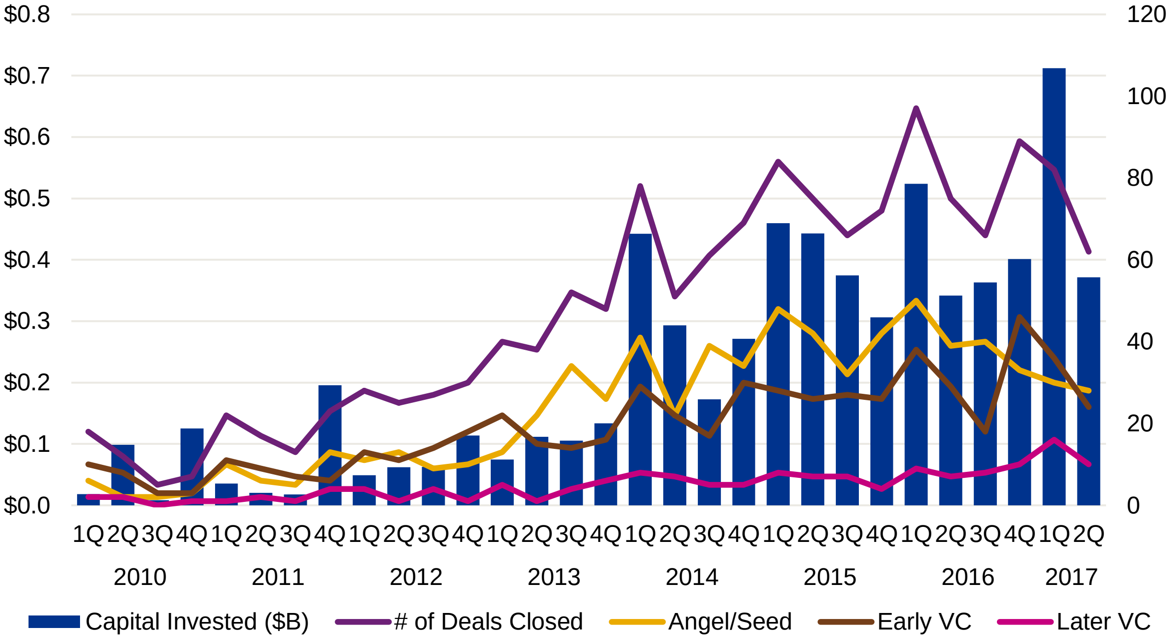
Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

Quarterly tallies of overall investment in European fintech companies were so massive in the past that it is important to note the sector is still developing and prone to significant quarterly vagaries. What is more intriguing is that for some time now, the pace of investing has persisted at an elevated level. This could be a testament to the growing maturity of multiple use cases for fintech applications, as well as greater impetus for corporations and investors to gain exposure for financial gain and innovative purposes.

Still helped by outliers, VC invested stays robust

Venture investment in fintech companies in Europe

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

The European venture scene is largely a patchwork of highly active metropolises. The fintech scene is no different, with London, Berlin, Stockholm and Paris hosting plenty of fintech companies, acting as outliers, that draw in the most VC financing. In the wake of an outlier-skewed Q1'17, the hefty sums raised in Q2'17 demonstrate how the European fintech scene continues to thrive.

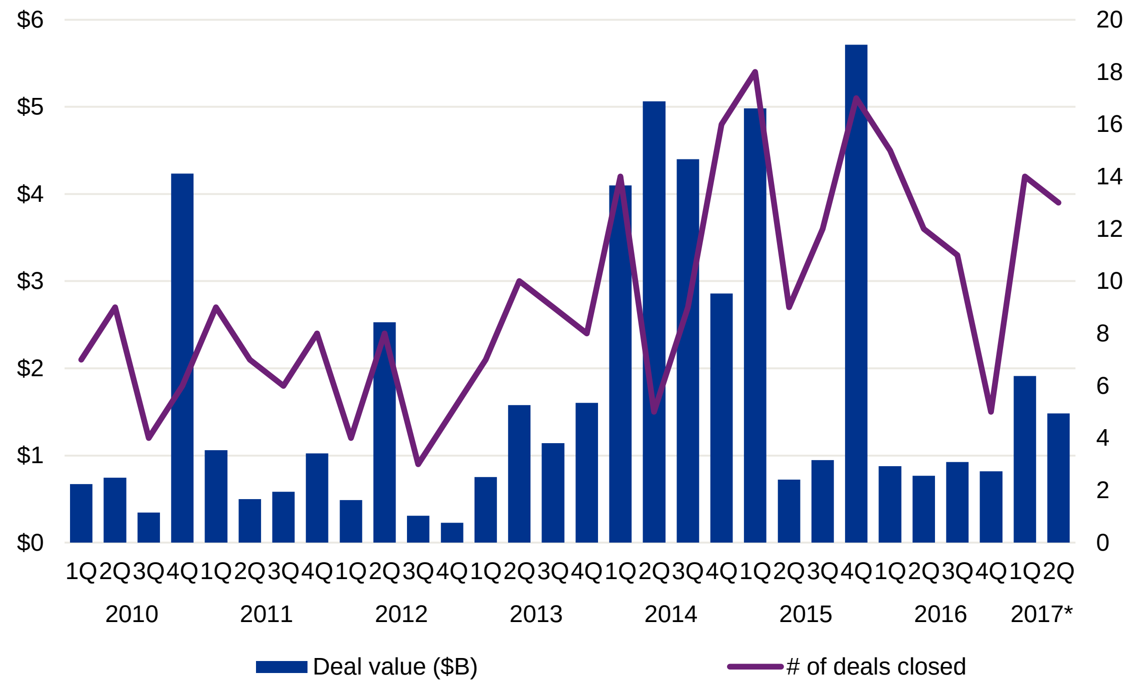
"As the possibility of a hard Brexit becomes more real, many financial services companies licensed in London have started searching for possible alternative locations for operations with Ireland, Luxembourg and Germany all high on the list. And while regulators are pushing major banks and insurers to come up with a 'Plan B', fintechs haven't had to be as quick to make decisions. But expect to see fintechs increasingly focused on examining their options over the next 6 months."

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

PE activity continues at elevated volume

Fintech PE activity in Europe

2010 – Q2'17



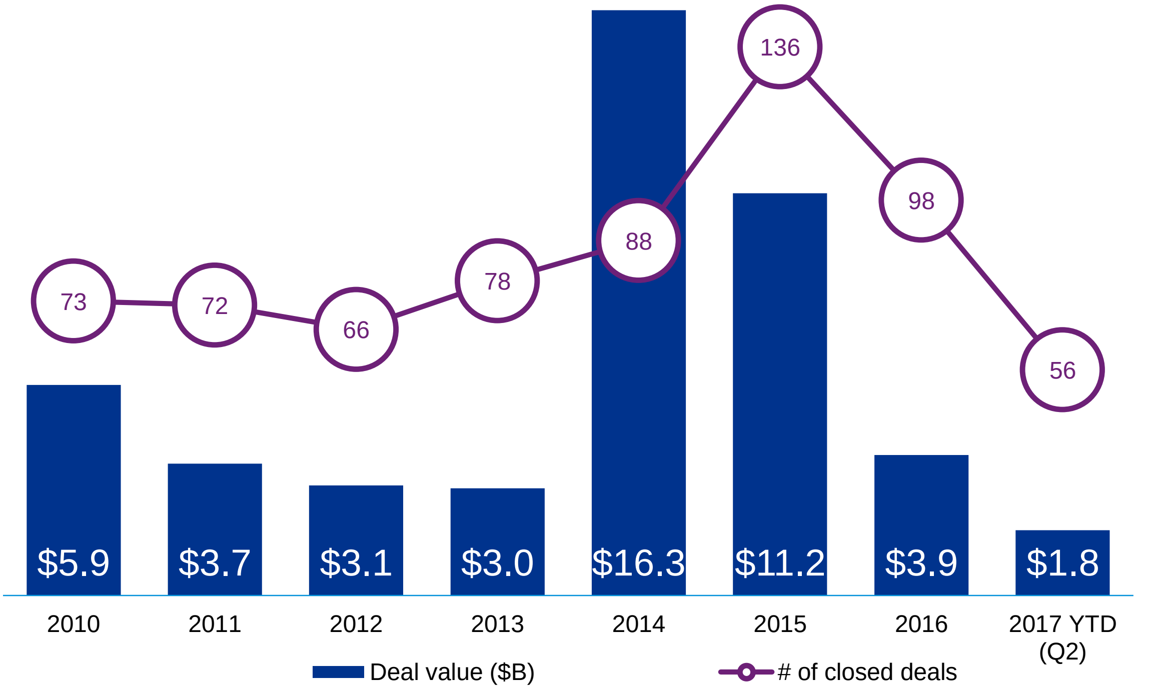
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

"The coming year will see considerable change across the European financial services landscape, driven by PSD2 and Brexit negotiations. Both PSD2 and Brexit negotiations will result in new areas of opportunity within the financial services market and will open the door to new business models, innovations and areas of investment over the longer term and will change the European financial services landscape."

Tom Roberts
Director,
Banking,
KPMG in the UK

M&A remains on pace

Fintech M&A activity in Europe
2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

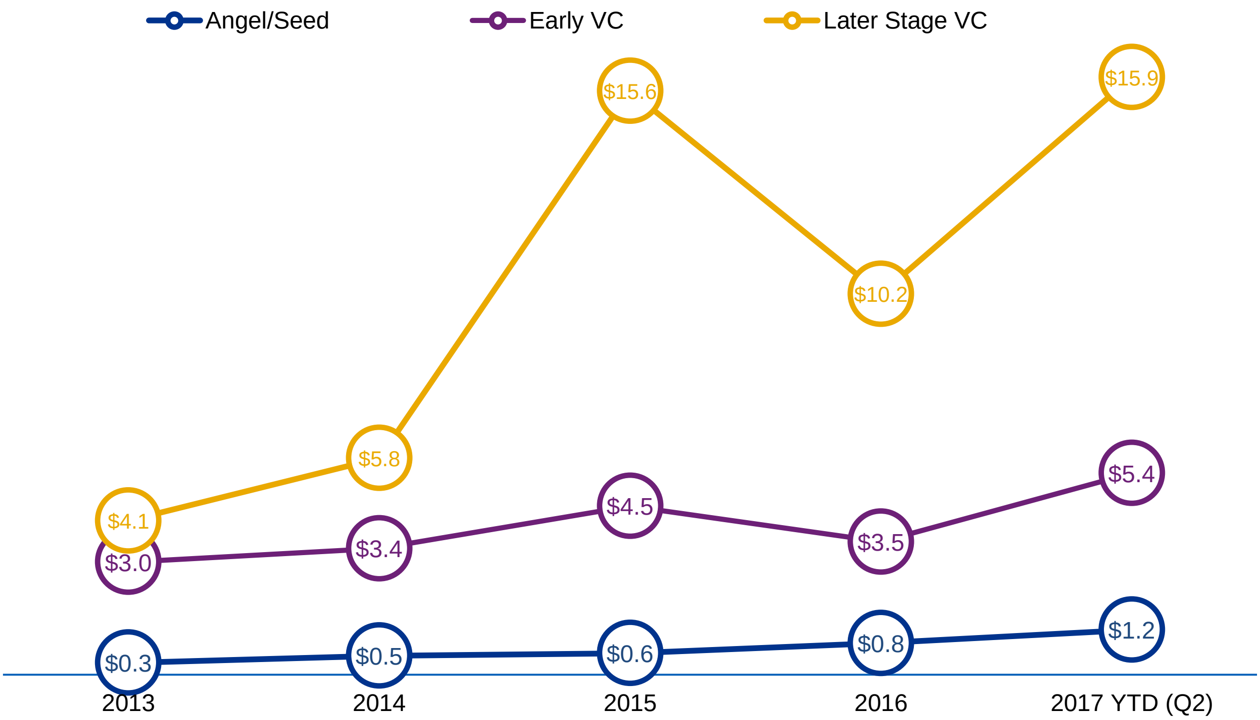
Currently, M&A volume and value is on pace to just roughly match last year's tally, which would represent a historically healthy total. Especially when it comes to European fintech and the current macro scene, there are compelling reasons for banks and other financial institutions to streamline processes and achieve economies of scale while staying abreast of innovation.

"Fintechs acquiring banking licenses is an early indicator that the business model is shifting. While we hear about potential consolidation in fintech subsectors, such as payments, some of this activity will be driven by mature fintechs acquiring proven solutions to create more robust platforms with the goal of transforming into challenger banks."

Dorel Blitz
Head of Fintech
KPMG in Israel

Financing sizes up across the board

Median fintech venture financing size ($M) by stage in Europe
2013 – Q2'17

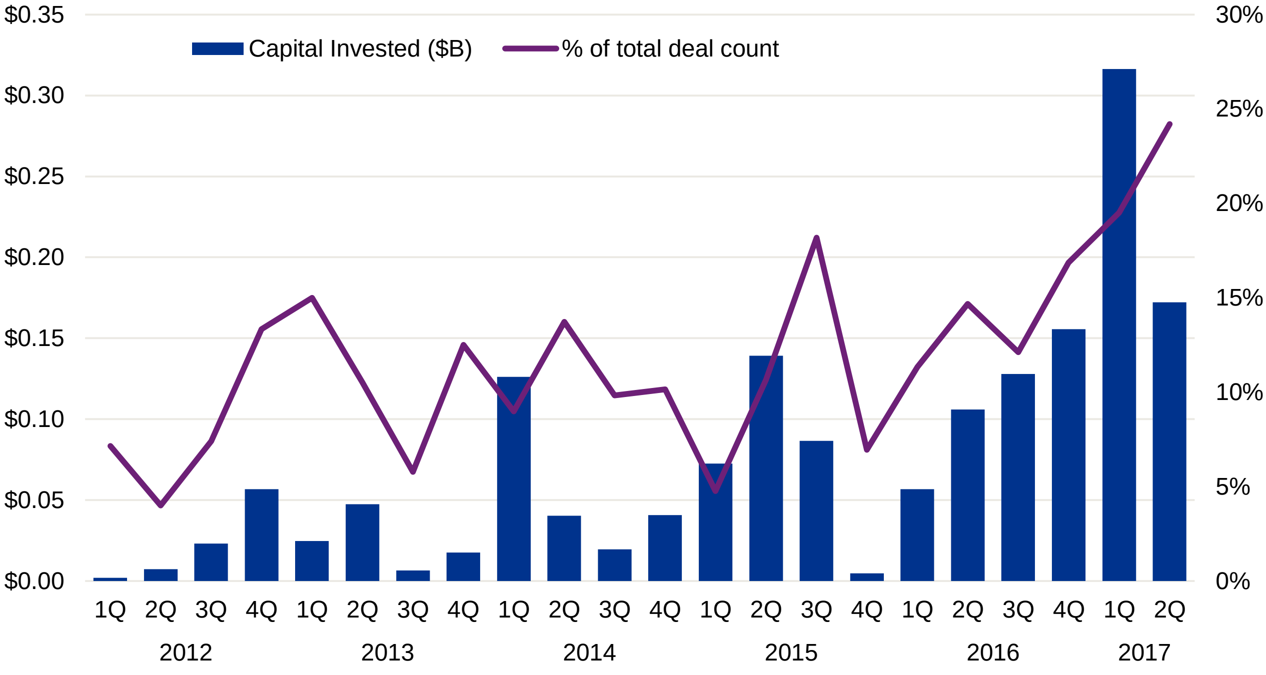


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Corporate VCs get even more involved

Fintech venture activity in Europe with corporate VC participation

2012 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Corporate participation continues to rise in Europe, besting even the previous high in Q1'17 set for the period stretching back to 2012. It is likely attributable to the compelling incentives for financial corporations or strategics with significant financial product lines to stay on top of innovations related to said divisions or their core technologies.

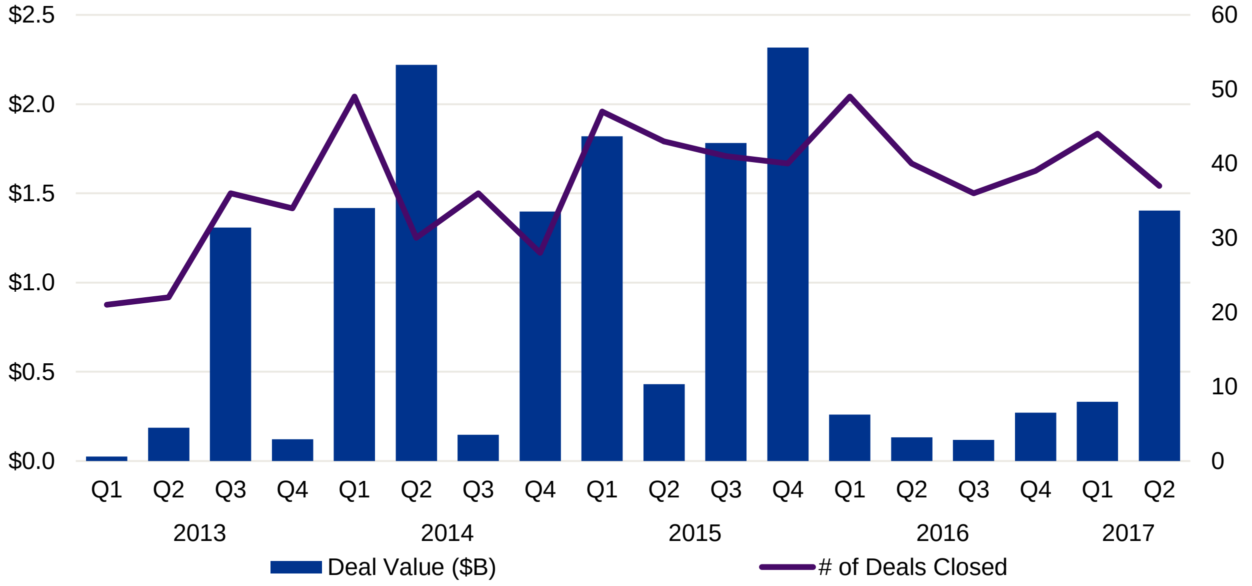
"Recently, there's been considerable innovation by fintechs focused on helping financial institutions leverage big data and AI to drive cost reductions and operational improvement. We expect this trend towards deeper back office innovation to continue for some time to come."

Ank van Wylick
Head of FinTech and
Innovation Consulting,
KPMG in the Netherlands

UK sees significant bump in deal value

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

2013 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

London-based fintechs still command plenty of capital, despite ongoing political uncertainty. There have been large investment rounds at both ends of the scale - from late-stage deals into more traditional sub-sectors such as lending, to activity in emerging areas such as insurtech and regtech. Resulting in a significant increase in average deal value over the quarter.

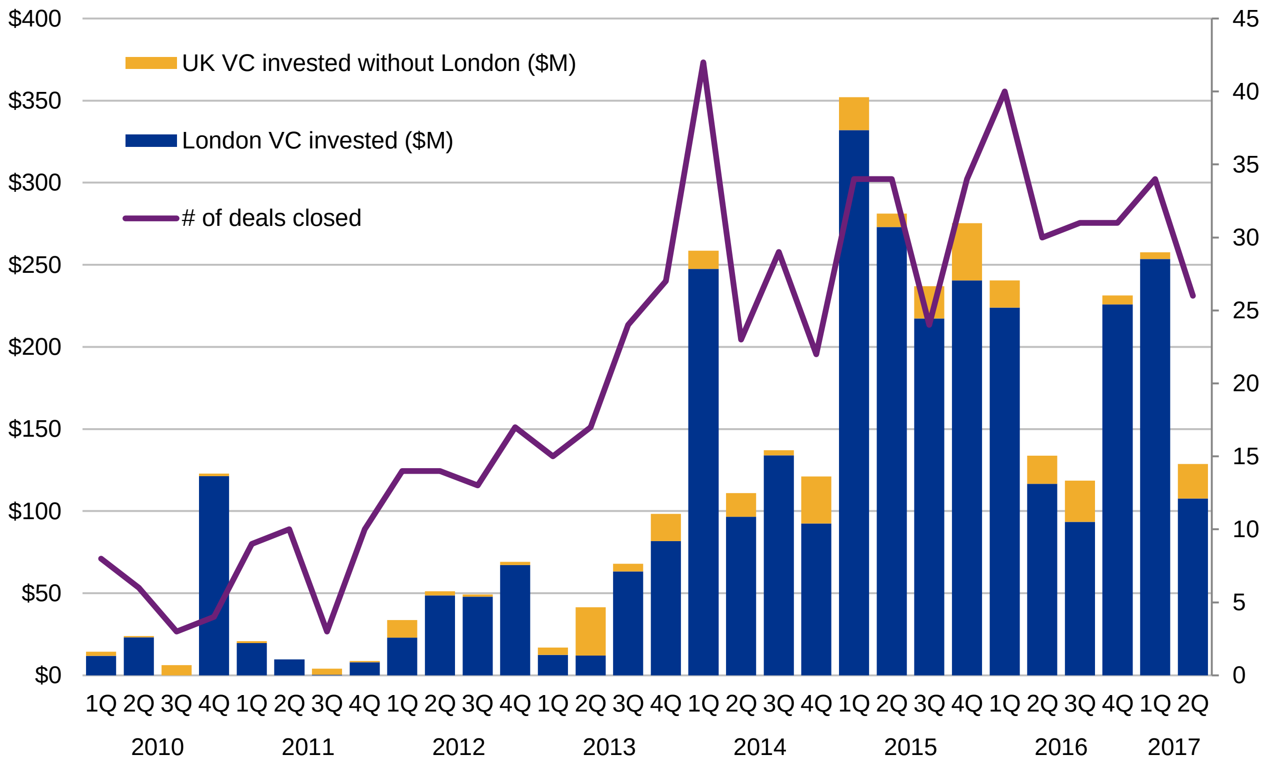
"Looking ahead, there is exciting activity on the horizon in the UK and throughout Europe. Cyber security, powered by AI, continues to be on the rise and should attract some big investments, while the first practical use cases for blockchain should push this technology back toward the spotlight of investors."

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

European fintech activity centered in metros

Fintech venture activity in the UK versus London

2010 – Q2'17



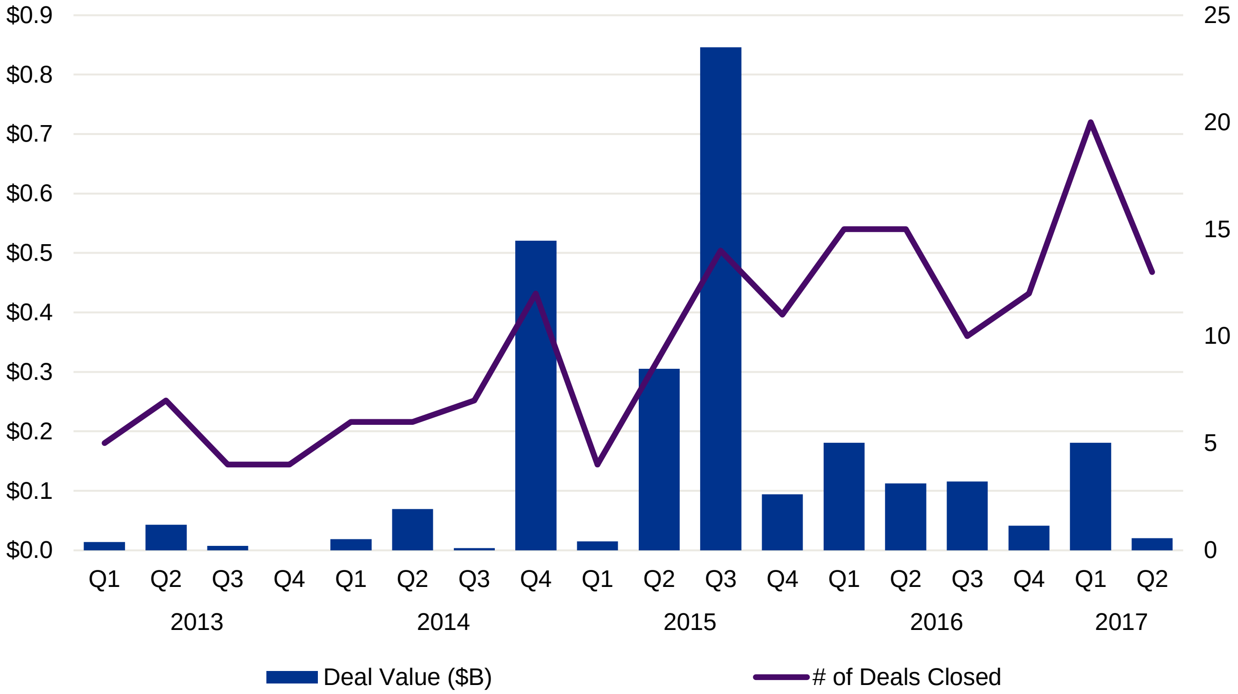
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

It's often presumed that most European venture activity is centered in the metropolises of the continent. When it comes to fintech, that is doubly true. Charting out the amount of the UK's tally of total VC invested for which London accounts, the proportions are staggeringly in favor of startups located in the nation's capital.

German volume suffers downturn

Fintech VC, PE and M&A activity in Germany

2014 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

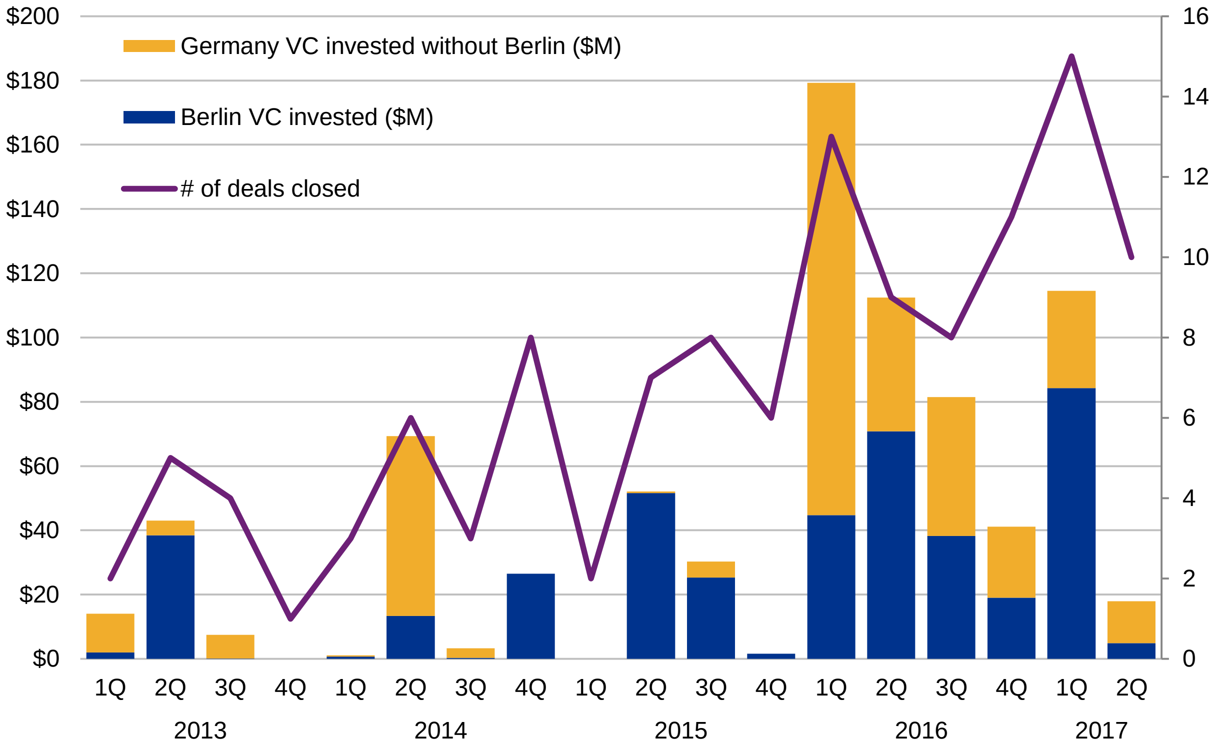
"In Germany, we are starting to see interesting activity in regtech, with B2B-focused startups helping banks with data processing to fulfill regulatory requirements in a lean, cost-efficient way. Evolving technologies, combined with ongoing regulatory changes across Europe, are creating the conditions needed to both spur innovation and prompt financial services corporations to seek external solutions."

Sven Korschinowski
Partner,
Financial Services,
KPMG in Germany

Significant outliers outside Berlin occur

Fintech venture activity in Germany versus Berlin

2013 – Q2'17

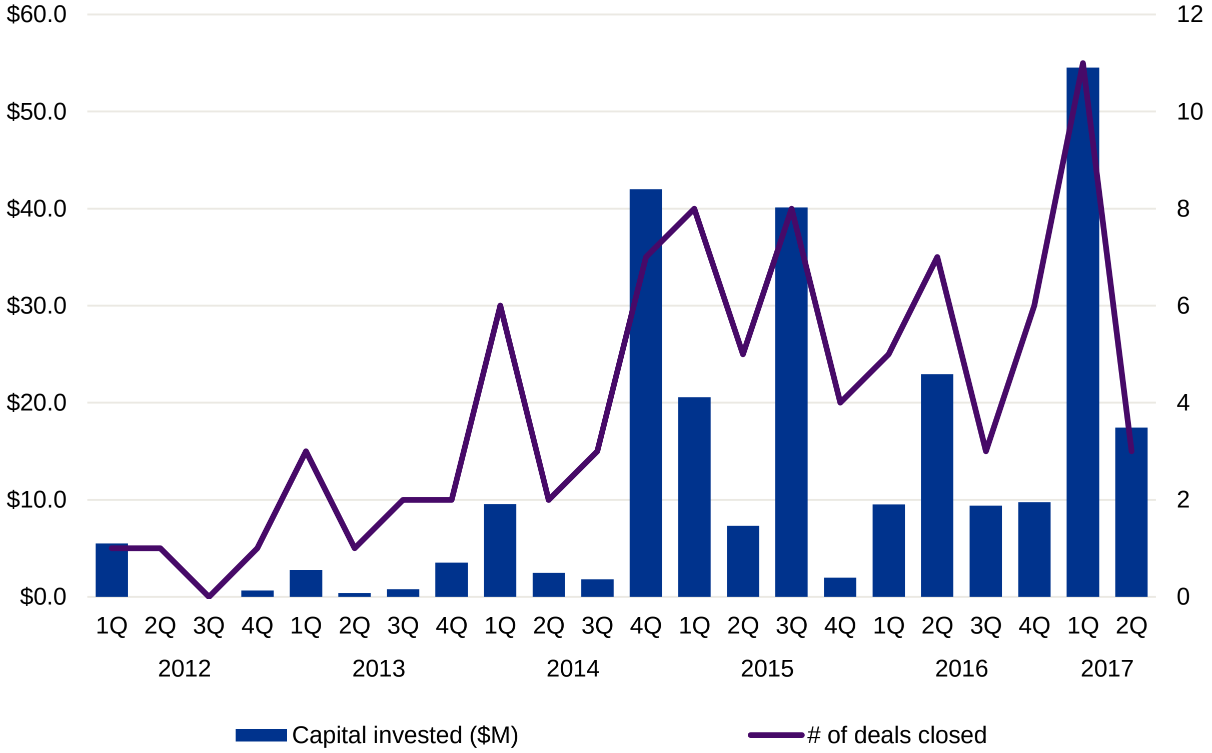


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

France sees mid-range numbers

Fintech venture activity in France

2012 – Q2'17

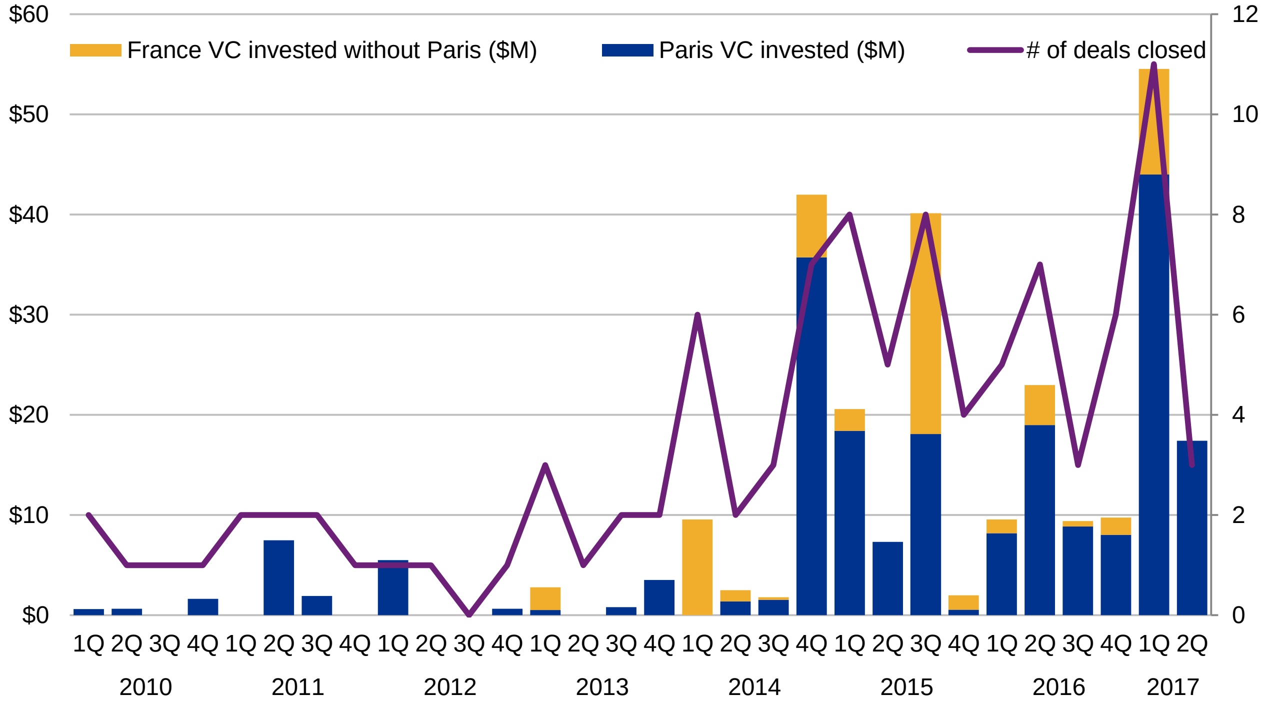


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

France sees less concentration than the UK

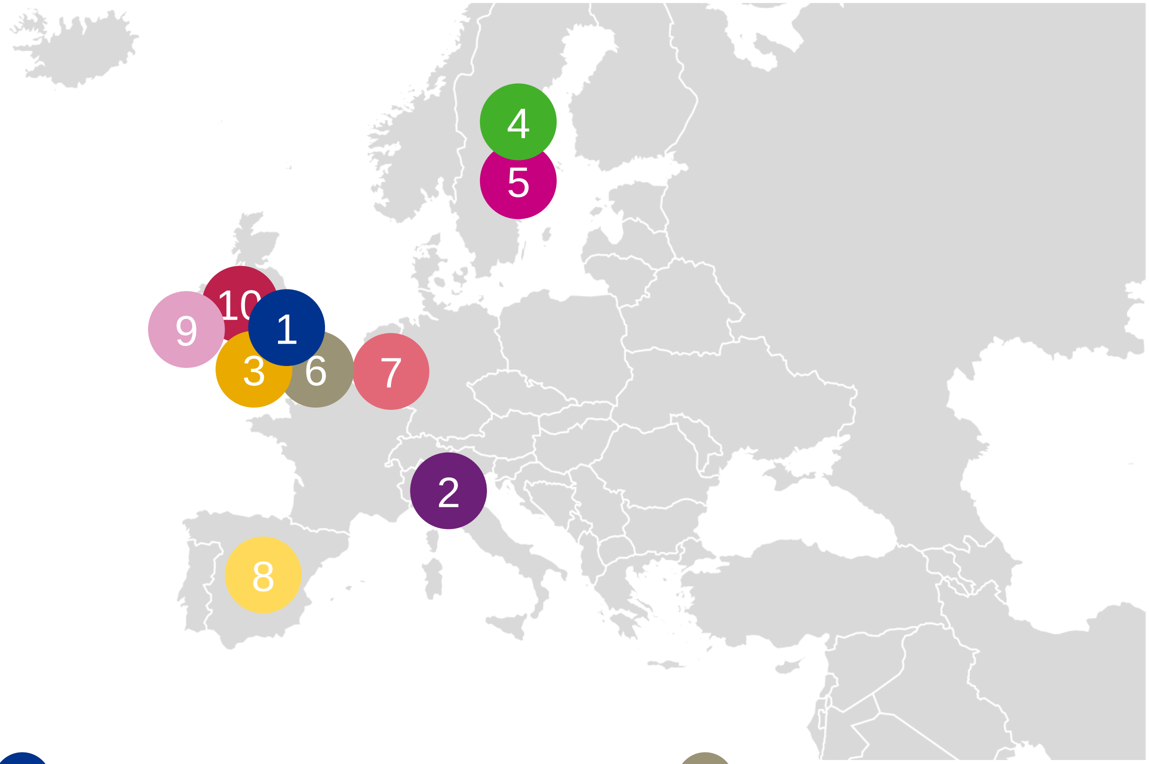
Fintech venture activity in France versus Paris

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Top 10 European fintech deals in Q2'17



1 **Vocalink** — $1.2B, Rickmansworth
Payments/transactions
M&A

2 **CCH Tagetik** — $321M, Lucca
Institutional/B2B
M&A

3 **ITRS Group** — $140.6M, London
Institutional/B2B
Buyout

4 **BIMA (Mobile Micro-Insurance)** — $55.2M, Stockholm
Insurtech
Series C

5 **TradeExtensions** — $45M, Uppsala
Institutional/B2B
M&A

6 **Zopa** — $40.9M, London
Lending
Late stage VC

7 **Blockchain** — $40M, Luxembourg
Payments/transactions
Series B

8 **Fintonic** — $28.05M, Madrid
Personal finance
Series B

9 **Plynk** — $28.05M, Dublin
Payments/transactions
Series A

10 **RateSetter** — $16.8M, London
Lending
Late stage VC

Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

In Q2'17, investment in fintech companies in Asia hit

$760M

across

51 deals

Fintech investment in Asia holds steady

Total investment into fintech in Asia remained relatively stable quarter over quarter, with $760 million invested across 51 deals. A diversity of fintech hubs across the region continued to garner investment, with companies based in China, India, Singapore and Australia represented in the top 10 deals in Q2'17. Both year-to-date PE and M&A activity at the end of Q2'17 were well off pace compared to the totals seen in 2015 and 2016, primarily due to the drop in activity during Q1'17.

Corporate participation in Asia-based VC fintech investment reaches new high

The Asian fintech market continued to be dominated by corporate VC investors in Q2'17, with corporates participating in almost 37 percent of deals. Corporate VC investment was also up slightly quarter over quarter. Across Asia, many large financial institutions and insurance companies appear to have recognized an innovation imperative and have been targeting fintech opportunities more than ever before. These traditional companies have been fostering internal fintech innovation teams and forming partnerships with fintechs in order to meet growing customer demand.

Chinese government focuses on curbing issues with P2P

The Chinese government has shown a strong commitment to supporting innovation, including fintech innovation. It has also shown a willingness to crack down on misconduct when needed. For example, the government is currently working to enhance regulations in order to reduce risks and better manage companies operating in the P2P lending space.[10]

Payments and lending were the hottest areas of fintech investment in China in Q2'17, although wealth management and securities trading also gained some attention from investors. While many of the fintech investments conducted in China have focused on customer-facing, front office solutions, there has been a recent wave of interest in middle and back office solutions. One such company, Ouyeeel, raised $140 million this quarter in the region's top fintech deal. Other back office functions targeted by fintechs in China include risk assessment and risk management.

Lending and payments solutions continue to gain attention in India

India continued to see a relatively strong amount of fintech deals activity in Q2'17 despite a dip in VC funding. Three of the top fintech deals in Asia were based in India, including ItzCash ($123m, M&A) and MobiKwik ($50m, Series C). While insurtech has not yet gained a significant amount of traction in India to date, the tide may be starting to turn. During this quarter, one insurtech company, Acko, raised $30 million in seed funding.

Unlike many areas of the world, payments and lending solutions continued to drive a significant amount of fintech investment in India during Q2'17. While ticket sizes were relatively low in the lending space, there have been numerous deals focused on personal lending and small business loans. In Q2'17, solutions focused on providing short duration loans (i.e. 15 to 90 days) attracted the most attention in the lending space, as bridge financing is considered a relatively large issue for both individuals and businesses. Blockchain also continued to attract attention in India, although no company has been able to provide a commercial model for the technology as of yet.

Fintech investment in Singapore increases despite third quarter of decline in deal volume

Investment into fintech in Singapore was up quarter over quarter, although the volume of fintech deals continued to decline. The apparent decline may simply reflect the growing move toward a more partnership-oriented fintech model in the country.

The Monetary Authority of Singapore (MAS) continues to drive the majority of fintech activity in the country. During Q2'17, MAS began to shift its focus from education and innovation to promoting technology adoption and attracting companies to launch offerings in Singapore. Over the longer term, MAS hopes to see fintechs increasingly use Singapore as a base to pilot and then deploy solutions into other countries within southeast Asia, such as Indonesia and Thailand.[11] The success of these cross-border solutions could prove the viability of using Singapore as a springboard for Asia-based expansion.

Trends to watch for in Asia

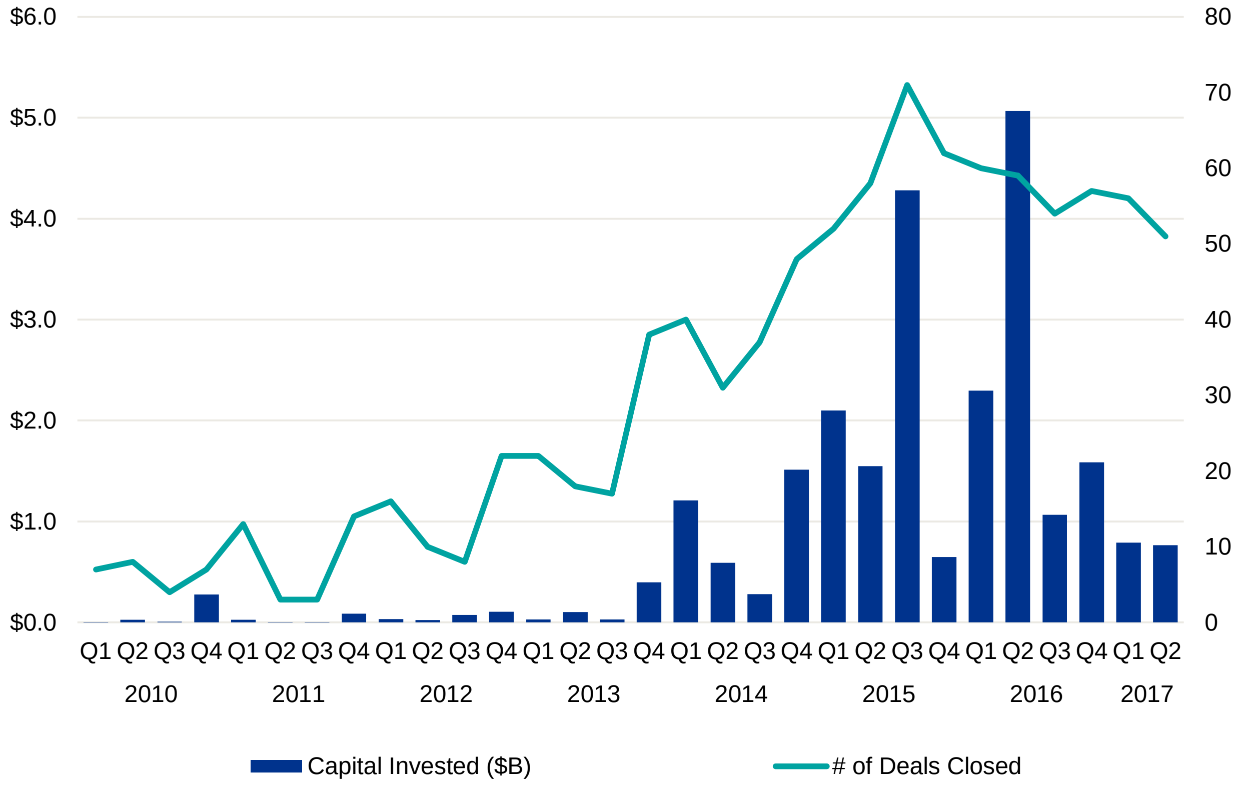
Looking ahead, blockchain is expected to remain a relatively hot area of investment across much of Asia, in addition to payments and lending. In China, regtech is also forecasted to attract more attention from investors, particularly related to anti-money laundering and digital identity management. Interest in solutions related to financial inclusion is also expected to grow over the next few quarters, given the significant underbanked and unbanked populations in Asia.

10. https://article.wn.com/view/2017/01/09/China_P2P_lenders_brace_for_regulatory_crackdown/
11. http://www.channelnewsasia.com/news/business/helping-start-ups-venture-abroad-is-next-big-focus-mas-chief-fin-7683522

No mega-deals to date in 2017

Fintech VC, PE and M&A activity in Asia

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

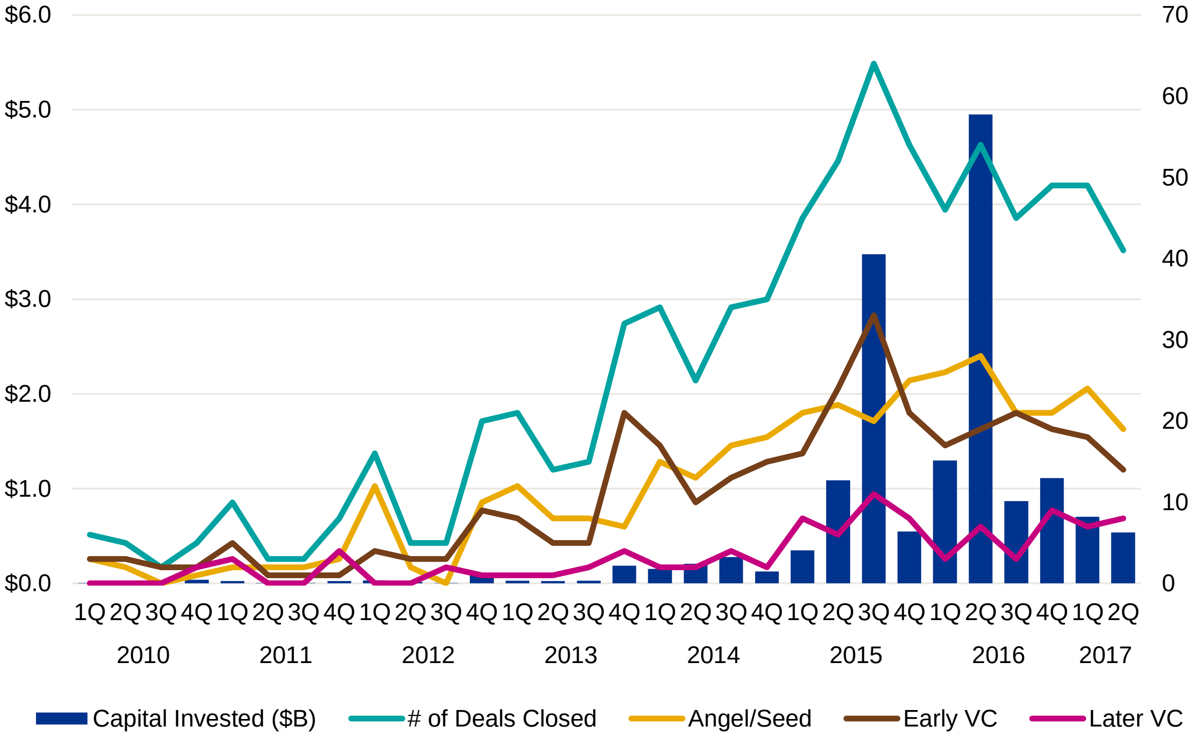
Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

Paytm's $200 million financing in Q1'17 contributed to boost totals heftily and, as of yet, nothing larger has resurfaced in the Asia-Pacific region. This is due more to timing and the scarcity of new corporation formation in the region than anything else. Incumbents have been able to either snatch up newer startups or back their own affiliated or in-house units when it comes to fintech innovation.

KPMG

Late-stage steadiness in volume keeps overall investing pace relatively up

Fintech venture investment in Asia
2010 – Q2'17

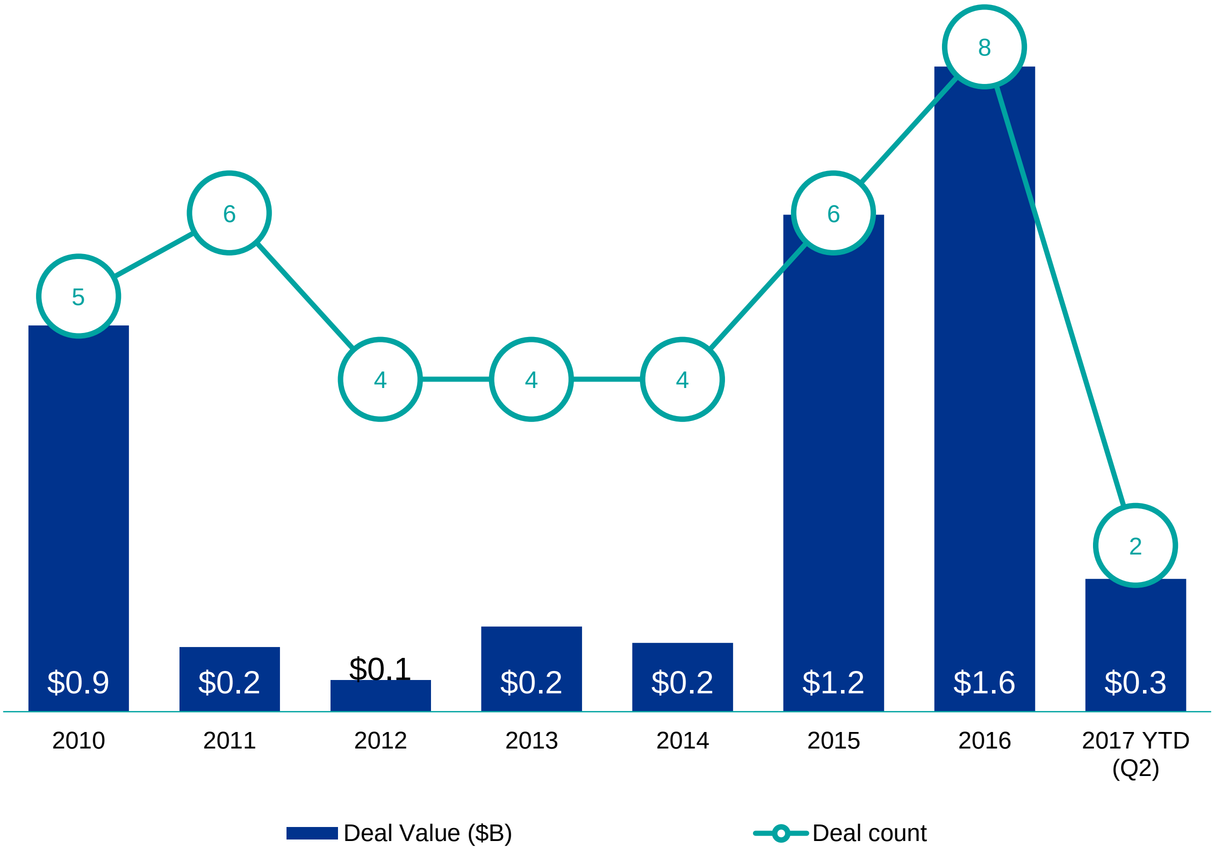


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

The late-stage steadiness in terms of volume is impressive, given the overall venture ecosystem is still developing within the region. However, as non-traditional players and especially corporate venture arms remain active within the area in fintech, this trend may well continue.

PE activity to date sporadic at best

Fintech PE activity in Asia
2010 – Q2'17

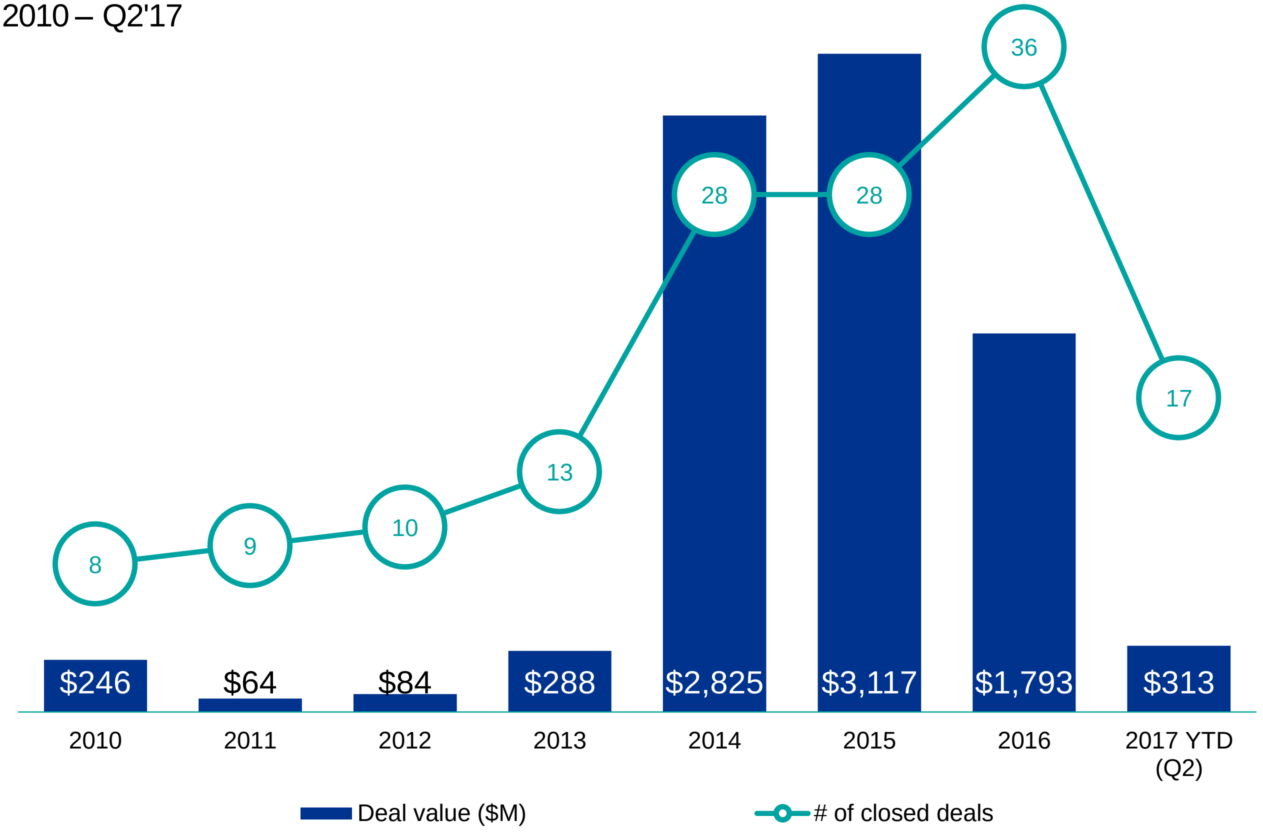


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Pace of M&A volume is strong

Fintech M&A activity in Asia

2010 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

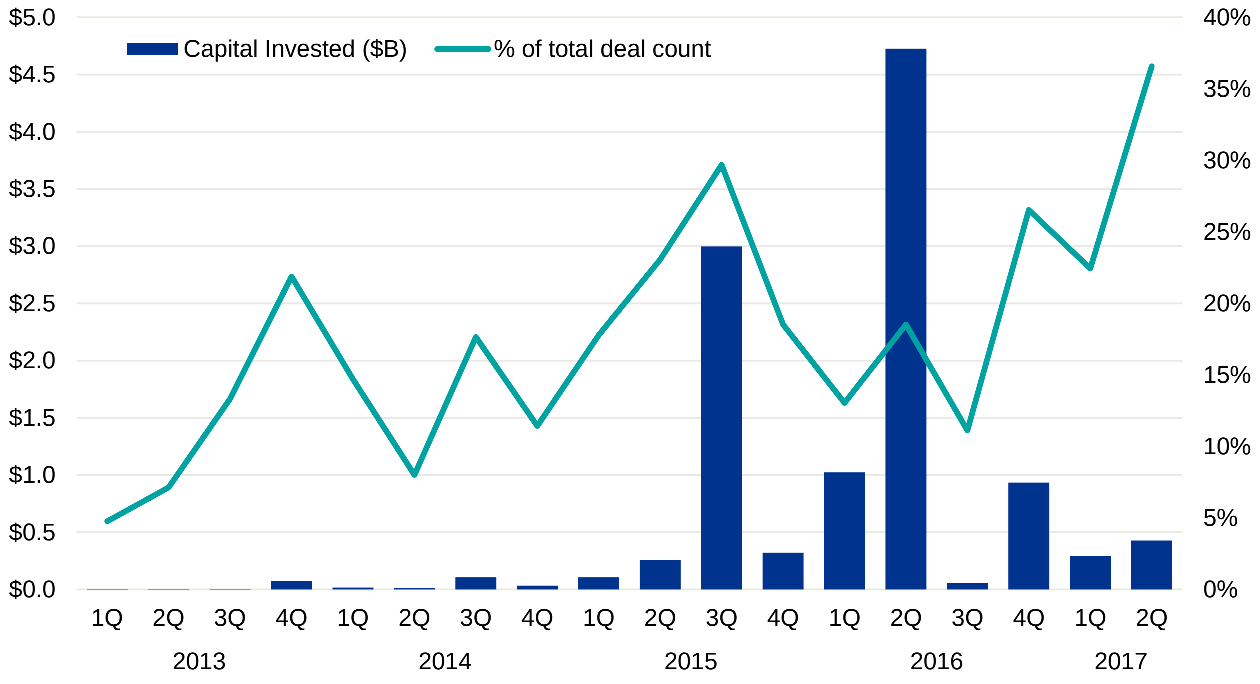
Consolidation and the push to capture greater market share amid the emerging middle-class population of the region will likely encourage M&A within Asia, across the board. Fintech should be no exception.

"The payments tech giants appear to have successfully developed the local market in China. Now many are becoming very aggressive at overseas market development. There could be a lot of big moves over the next few quarters."

Philip Ng
Partner, Head of Technology,
KPMG China

CVCs play an outsized role

Fintech venture capital activity in Asia with corporate VC participation
2013 – Q2'17



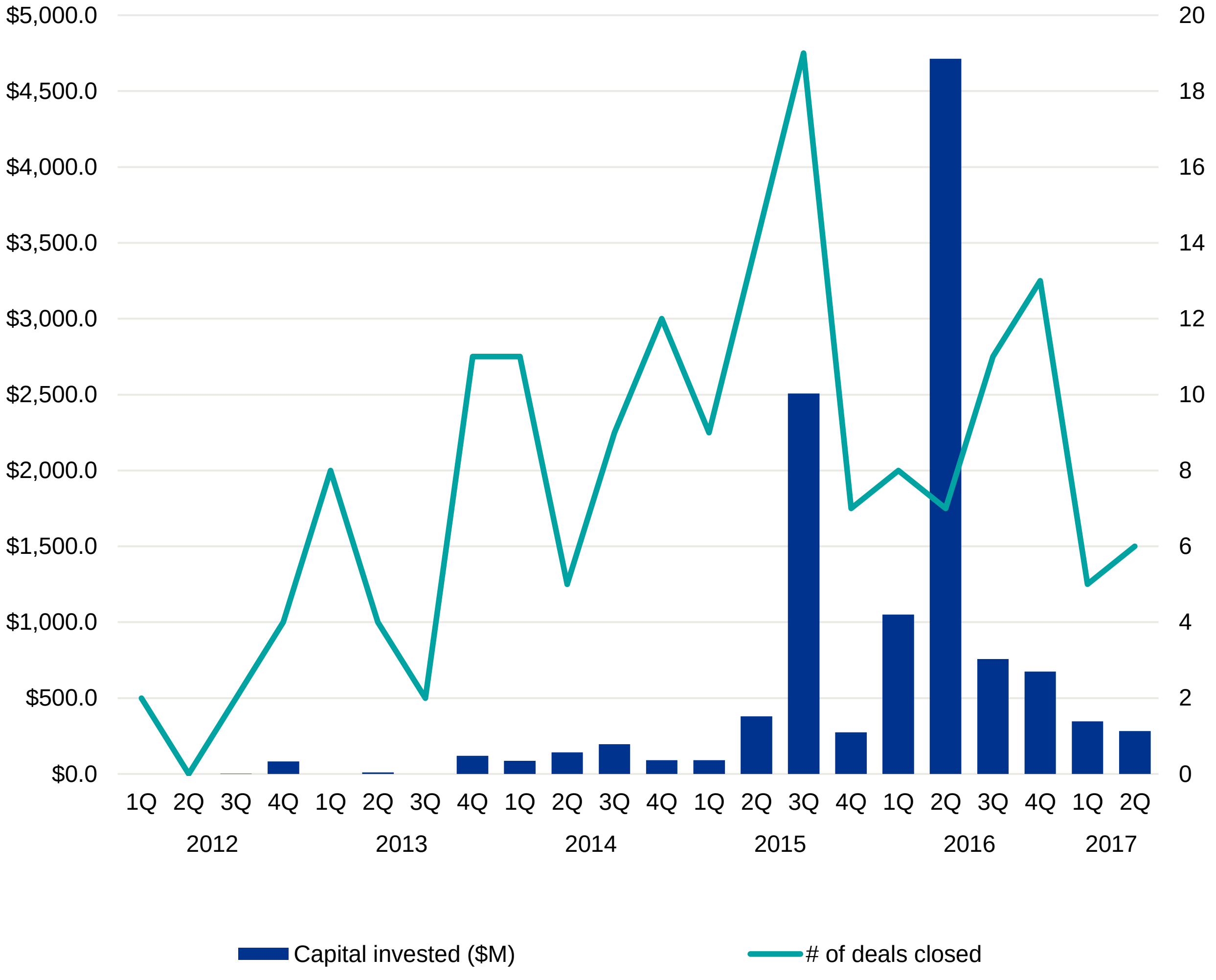
Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Especially when it comes to the VC scene, the role of established corporation-affiliated players is clear when looking at the proportion of all VC activity with which they are associated. Aggregate VC invested may ebb or flow, but their involvement is indicative not only of the region, but also the close focus on fintech of many of the established incumbents in the region, such as Alibaba.

VC invested trends downward slightly

Fintech venture investment in China

2012 – Q2'17

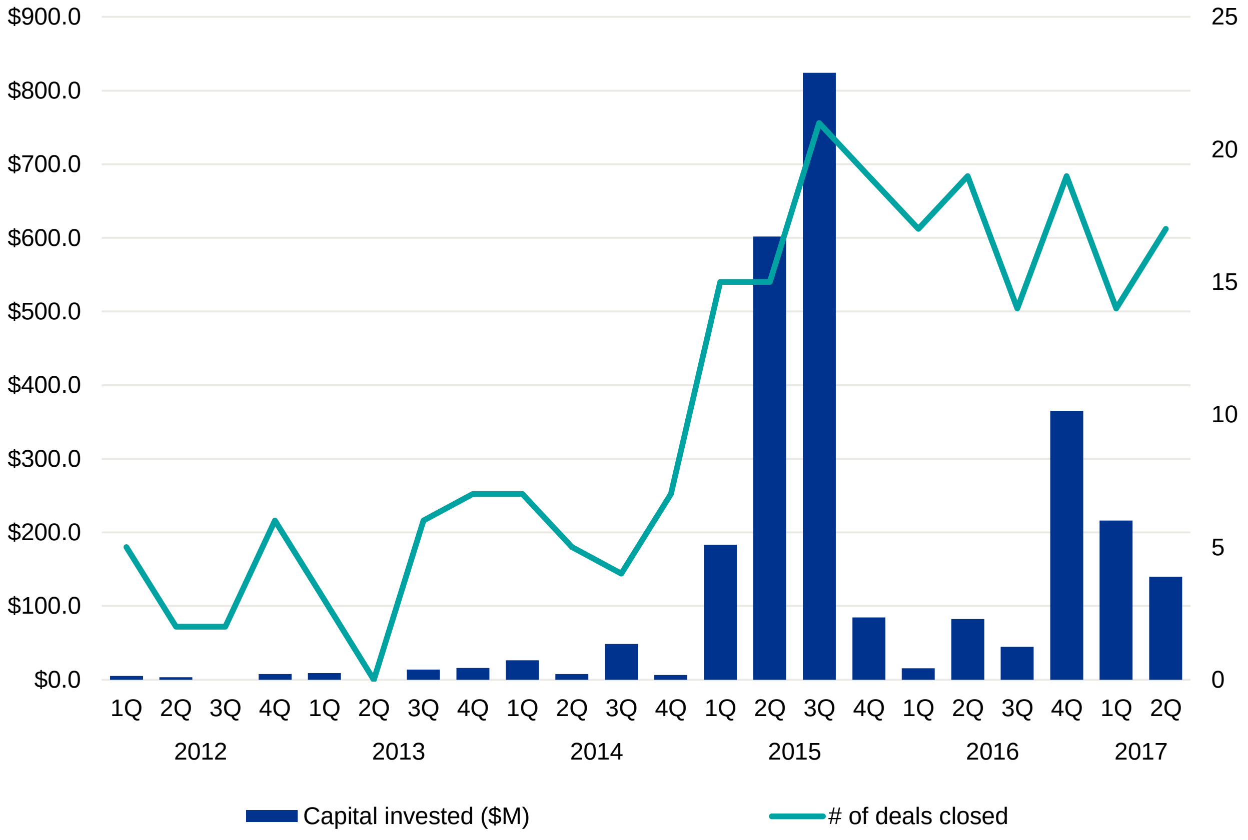


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Indian VC activity in fintech continues apace

Fintech venture investment in India

2012 – Q2'17



Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

"The central government in India has been getting behind fintech in a big way. They recently introduced a platform to promote digital enablement that can be leveraged by both banks and fintechs, which could give fintech innovation a boost over the coming months."[12]

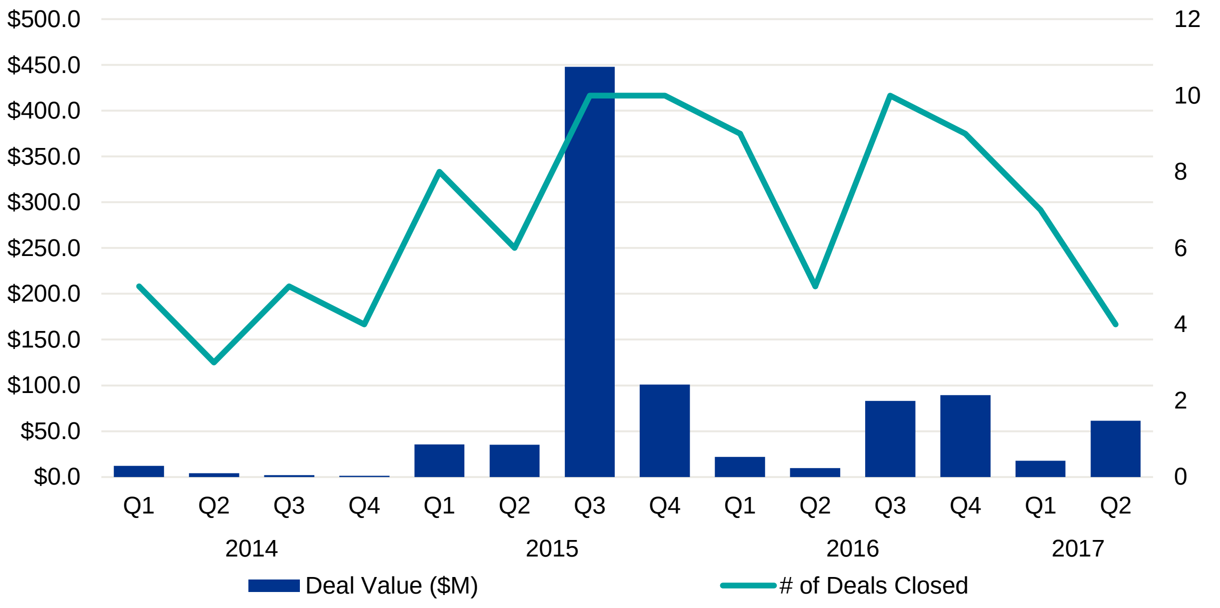
Neha Punater
Head of Fintech,
KPMG in India

12. https://inc42.com/buzz/p2p-lending-fintech-loans/

The slower period extends

Fintech VC, PE and M&A activity in Singapore

2014 – Q2'17



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Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

Especially when analyzed on a quarterly basis, any one country in a developing venture ecosystem such as Asia's will experience significant variability in deal volume. That said, given the bevy of heftier financings in the Singaporean fintech scene throughout 2016, temporality is definitely playing more of a role thus far in 2017, with those companies best placed to raise funds or get acquired having already done so.

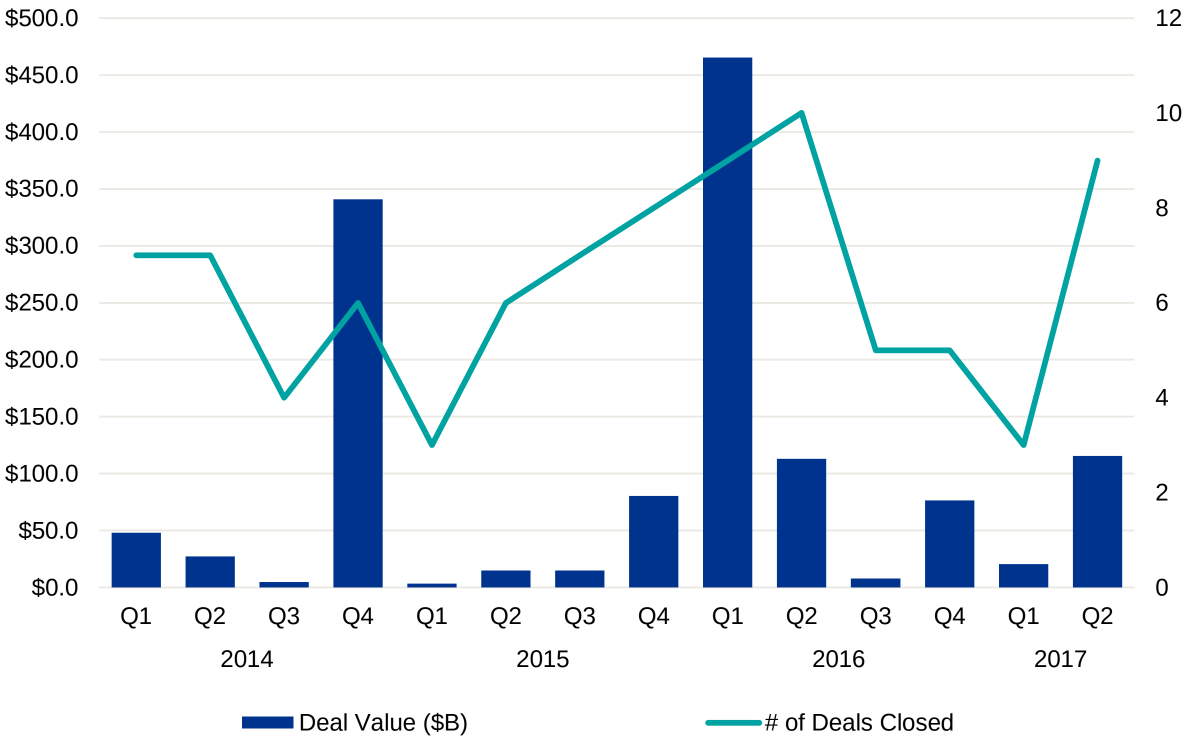
"There seems to be a major push to transform Singapore into the world's blockchain leader, with an ever-increasing number of use cases in the country aimed at testing blockchain in government trade, land registry and tax functions in addition to traditional banking and insurance."

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

Q2 sees spurt in Australian fintech volume

Fintech VC, PE and M&A activity in Australia

2014 – Q2'17

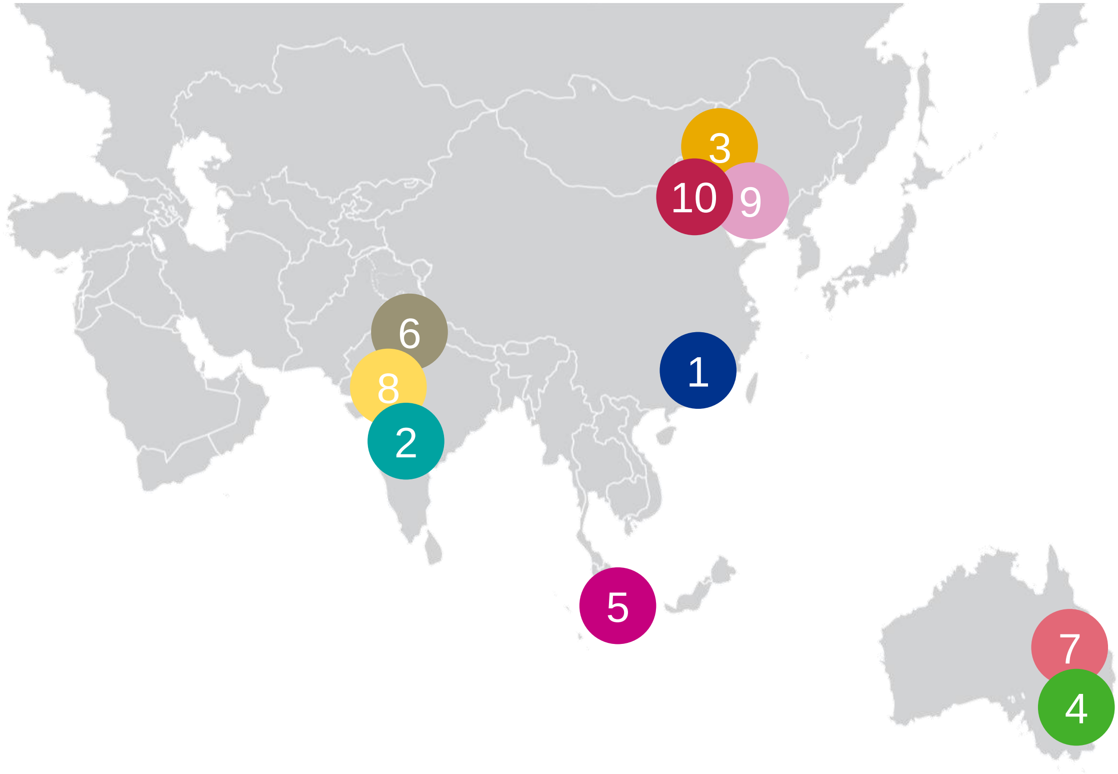


Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

Note: please note that the separate PE and M&A data sets both include PE buyouts as a transaction type per the Methodology section on page 76.

Fintech transactional activity continues its recent volatility in Australia, with a spurt upward in volume nearly to the peak seen in Q2'16. Moreover, deal value also rebounded, unsurprisingly. Rubik Financial's AUD68 million acquisition by Temenos had a considerable impact there.

Top 10 fintech deals in Asia in Q2'17



1 **Ouyeel** — $140M, Shanghai
Payments/transactions
Early stage VC

2 **ItzCash** — $123M, Mumbai
Payments/transactions
M&A

3 **Wecash** — $80M, Beijing
Lending
Series C

4 **Rubik Financial** — $50.6M, Sydney
Institutional/B2B
M&A

5 **Singapore Life** — $50M, Singapore
Insurtech
Series A

6 **MobiKwik** — $50M, Gurgaon
Payments/transactions
Series C

7 **Paycorp** — $36.2M, North Sydney
Payments/transactions
M&A

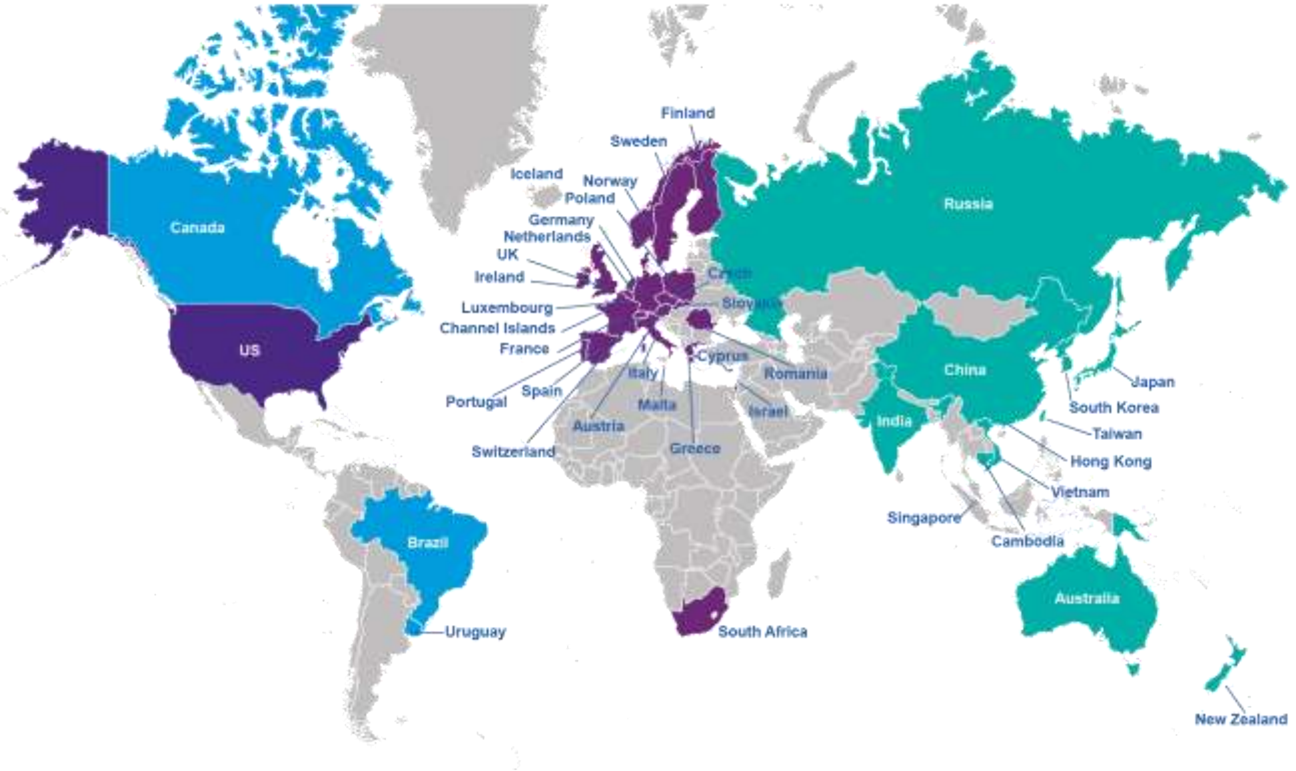
8 **Acko**— $30M, Mumbai
Insurtech
Seed

9 **G-Banker** — $29M, Beijing
Institutional/B2B
Series C

10 **BangSun Technology** — $23M, Beijing
Institutional/B2B
Series B

Source: Pulse of Fintech Q2'17, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook) August 1, 2017.

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

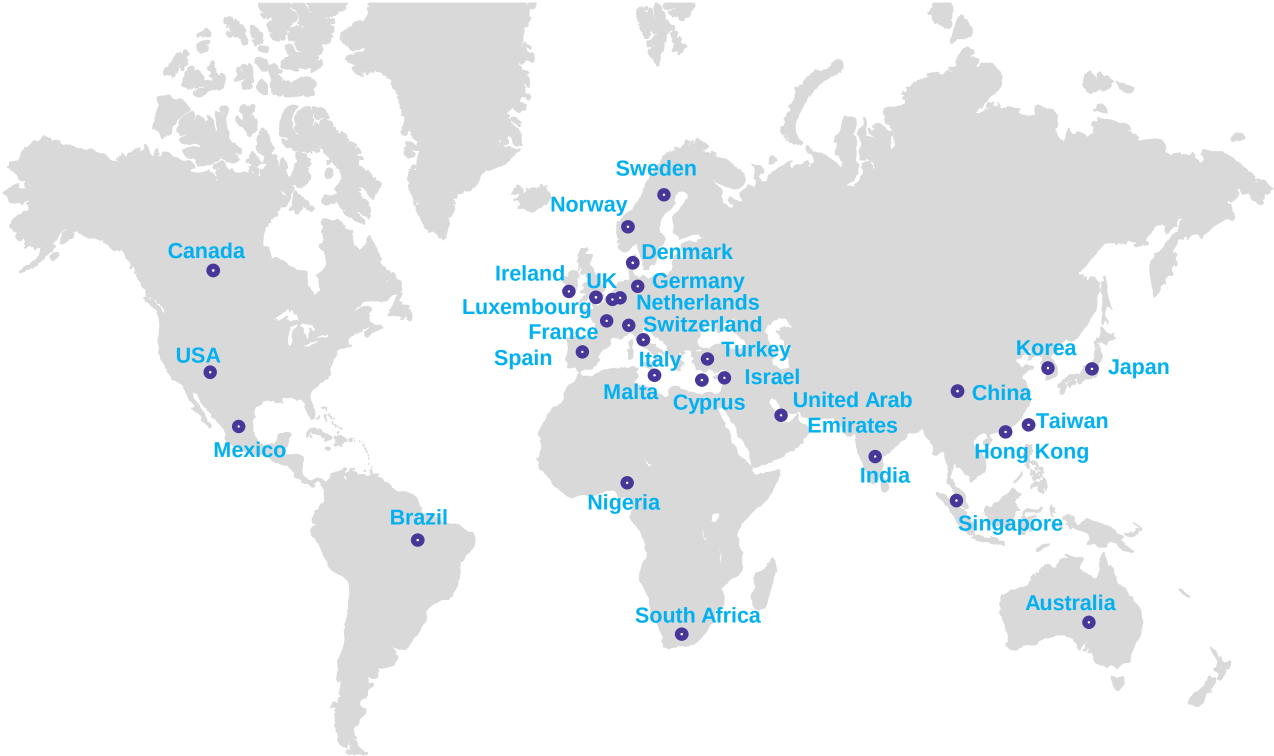


Contact us:

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

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

KPMG Fintech global network



Contact us:

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

Murray Raisbeck
Global Co-Leader of Fintech,
KPMG International and
Partner, Insurance,
KPMG in the UK
E: murray.raisbeck@kpmg.co.uk

About KPMG Enterprise

You know KPMG, you might not know KPMG Enterprise.

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

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

About KPMG Fintech

The Financial Services sector is transforming with the emergence of innovative products and solutions. This wave of innovation is primarily driven by changing customer expectations and continued regulatory and infrastructure cost pressures. KPMG is passionate about this transformation, working directly with emerging fintechs through 30 global fintech hubs. KPMG also brings its global fintech insight to traditional financial institutions, helping them fully realise the potential fintech has to grow their business, meet customer demands, and help them stay relevant and competitive.

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Jonathan Lavender, Global Chairman, KPMG Enterprise, KPMG International

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

Murray Raisbeck, Global Co-Leader of Fintech, KPMG International and Partner, Insurance, KPMG in the UK

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

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

Ank van Wylick, Head of FinTech and Innovation Consulting, KPMG in the Netherlands

Ann Armstrong, Emerging Technology and Financial Services Partner, KPMG in the US

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

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

Christopher Higgins, Senior Manager, Fintech, KPMG in the UK

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

Dorel Blitz, Head of Fintech, KPMG in Israel

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

Emily Hamilton, Marketing Manager, KPMG Enterprise, KPMG International

Jamie Rubenovitch, Digital Marketing Manager, Global Banking & Capital Markets and Fintech, KPMG International

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

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

Khalid Bakkali, Partner, Head of Deal Advisory, KPMG in the Netherlands

Lindsay Hull, Associate Director, KPMG Enterprise Global Innovative Startups Network, KPMG in the US

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

Neha Punater, Head of Fintech, KPMG in India

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

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

Philip Ng, Partner, Head of Technology, KPMG China

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

Safwan Zaheer, Director, Financial Services Digital and Fintech, KPMG in the US

Sigrid I Seibold, Partner, Financial Services, KPMG in the US

Sven Korschinowski, Partner, Financial Services, KPMG in Germany

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

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Methodology

Within this publication, only completed transactions regardless of type are tracked by PitchBook, with all deal values for general M&A transactions as well as venture rounds remaining un-estimated. Standalone datasets on private equity activity, however, have extrapolated deal values.

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

Deals

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

Angel/seed: PitchBook defines financings as angel rounds if there are no PE or VC firms involved in the company to date and it cannot determine if any PE or VC firms are participating. In addition, if there is a press release that states the round is an angel round, it is classified as such. Finally, if a news story or press release only mentions individuals making investments in a financing, it is also classified as angel. As for seed, when the investors and/or press release state that a round is a seed financing, or it is for less than $500,000 and is the first round as reported by a government filing, it is classified as such. If angels are the only investors, then a round is only marked as seed if it is explicitly stated.

Early-stage: Rounds are generally classified as Series A or B (which PitchBook typically aggregates together as early stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Late-stage: Rounds are generally classified as Series C or D or later (which PitchBook typically aggregates together as late stage) either by the series of stock issued in the financing or, if that information is unavailable, by a series of factors including: the age of the company, prior financing history, company status, participating investors, and more.

Growth equity: Rounds must include at least one investor tagged as growth/expansion, while deal size must either be $15 million or more (although rounds of undisclosed size that meet all other criteria are included). In addition, the deal must be classified as growth/expansion or later-stage VC in the PitchBook Platform. If the financing is tagged as late-stage VC it is included regardless of industry. Also, if a company is tagged with any PitchBook vertical, excepting manufacturing and infrastructure, it is kept. Otherwise, the following industries are excluded from growth equity financing calculations: buildings and property, thrifts and mortgage finance, real estate investment trusts, and oil & gas equipment, utilities, exploration, production and refining. Lastly, the company in question must not have had an M&A event, buyout, or IPO completed prior to the round in question.

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

Methodology, cont'd

Exits

PitchBook includes the first majority liquidity event for holders of equity securities of venture-backed companies. This includes events where there is a public market for the shares (IPO) or the acquisition of majority of the equity by another entity (corporate or financial acquisition). This does not include secondary sales, further sales after the initial liquidity event, or bankruptcies. M&A value is based on reported or disclosed figures, with no estimation used to assess the value of transactions for which the actual deal size is unknown.

Fundraising

PitchBook defines venture capital funds as pools of capital raised for the purpose of investing in the equity of startup companies. In addition to funds raised by traditional venture capital firms, PitchBook also includes funds raised by any institution with the primary intent stated above. Funds identifying as growth-stage vehicles are classified as PE funds and are not included in this report. A fund's location is determined by the country in which the fund is domiciled, if that information is not explicitly known, the headquarters country of the fund's general partner is used. Only funds based in the United States that have held their final close are included in the fundraising numbers. The entirety of a fund's committed capital is attributed to the year of the final close of the fund. Interim close amounts are not recorded in the year of the interim close.

M&A

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

Fintech

A portmanteau of finance and technology, the term refers to businesses who are using technology to operate outside of traditional financial services business models to change how financial services are offered. Fintech also includes firms that use technology to improve the competitive advantage of traditional financial services firms and the financial functions and behaviors of consumers and enterprises alike.

1. Payments/Transactions — companies whose business model revolves around using technology to provide the transfer of value as a service and/or ANY company whose core business is predicated on distributed ledger (blockchain) technology AND/OR relating to any use case of cryptocurrency (e.g. Bitcoin).
2. Lending — Any non-bank who uses a technology platform to lend money often implementing alternative data and analytics OR any company whose primary business involves providing data and analytics to online lenders or investors in online loans.
3. Investment Banking/Capital Markets — Companies whose primary business involves the types of financial intermediation historically performed by investment banks.
4. Insurtech — Companies whose primary business involves the novel use of technology in order to price, distribute, or offer insurance directly.
5. Wealth/Investment Management — Platforms whose primary business involves the offering of wealth management or investment management services using technology to increase efficiency, lower fees or provide differentiated offerings compared to the traditional business model. Also includes technology platforms for retail investors to share ideas and insights both via quantitative and qualitative research.
6. Personal Finance — Companies that provide a technology-driven service to improve retail customers' finances by allowing them to monitor spending, savings, credit score or tax liability OR leveraging technology to offer basic retail banking services such as checking or savings accounts outside of a traditional brick and mortar bank.
7. Institutional/B2B Fintech — Companies that offer technology-driven solutions and services to enterprises or financial institutions. These include software to automate financial processes, well financial security (excluding blockchain), authentication as well as traditional and alternative data utilized by financial or other institutions and enterprises to make strategic decisions.
8. Regtech — Companies who provide a technology-driven service to facilitate and streamline compliance with regulations and reporting as well as protect from employee and customer fraud.

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

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