



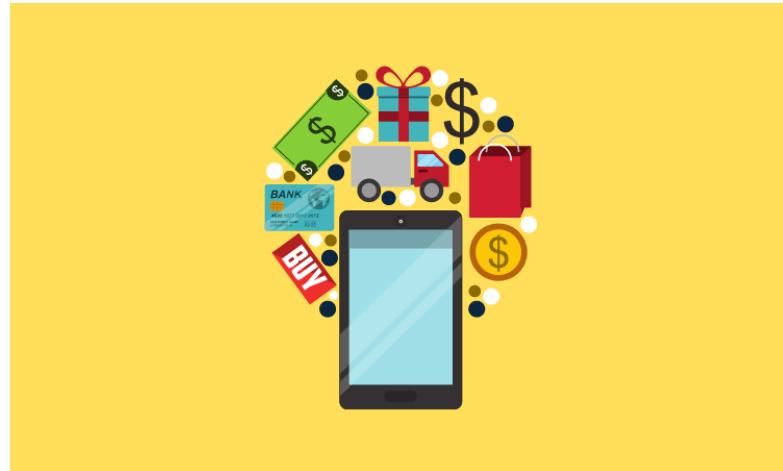
4 CHARTS, MEMBER EXCLUSIVE

Global investment in fintech sectors in 2020, in 4 charts

Fintech investment plunged by \$63 billion between 2019 and 2020.

Surprise, surprise, payments led fintech investment in 2020.

SHEHZIL ZAHID | JUNE 22, 2021



Despite a lower volume of investments overall, the payments sector led fintech investments in 2020, according to a report by KPMG.

Fintech investment plunged by \$63 billion with 611 fewer deals in 2020. KPMG attributes this fall to fewer big-value mergers and acquisitions like FIS' \$42.5 billion acquisition of WorldPay in 2019. While fintech investments lagged in the first half of the year, the second half saw some recuperation as the industry adjusted to the new normal. In the second half, fintech investments surged to \$71.9 billion for a total investment volume of \$105.3 billion across 2,861 deals.

Much of this recuperation in investment volume can be attributed to investments made in the second half of 2020. Global venture capital investments in fintech actually did much better than M&A and private equity, reaching a high valuation of \$42.3 billion – second only to 2018 when \$53.8 billion worth of VC investments poured into the sector. Robinhood claimed the largest VC investment in 2020 with \$1.3 billion across two deals in 2020.



M&A activity also blew up from \$10.9 billion in the first half of 2020 to \$50 billion in the second half of 2020. Nine of the top 10 M&A deals took place in the U.S., and it includes Intuit's \$8.1 billion acquisition of Credit Karma.

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While the payments sector lead global fintech investment in 2020, the sector was not exactly swimming in cash the

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way it was pre-pandemic. Last year, investors closed 404 deals that funneled \$19.7 billion into the sector — a sharp drop from the \$105 billion absorbed by payments in 2019 across 422 deals.

That's about an average of \$50 million per deal in 2020 compared to a \$200 million average per deal in 2019. Despite the chasm between deal values, 2020 only saw 18 fewer deals. This suggests that investors still want a piece of the payments pie, but are trying to be more conservative with the size of their investments as the world claws its way out of a global pandemic.

KPMG's study also suggests that fewer M&A activities in the payments sector contributed to a significantly lower global volume of investments in 2020.



Nonetheless, the payments sector still led fintech investments with the highest number of deals and the highest total value of investments made in 2020, due in large part to an increase of investments across the globe. In the U.S., payments firm Paya merged with blank-check acquisition company FinTech Acquisition Corp. III and listed on the Nasdaq stock exchange with a valuation of \$1.3 billion in October 2020. STC Pay and dLocal also raised \$200 million to become the first fintech unicorns in Saudi Arabia and Uruguay, respectively.

As the industry begins to bounce back in 2021, M&A activity is expected to improve as fintechs seek to scale and dominate in a segment or region and incumbents fast-track their efforts to go digital. More fintechs are likely to embrace an embedded finance model. Last year, Stripe partnered with Goldman Sachs, Barclays and Citigroup to offer such services to its users.

B2B payments are also gaining some ground with investors, with a growing focus on some of the more complex banking needs of small businesses such as liquidity, funding, and money movement.

With the success of challenger banks like Revolut and Chime, more money will likely go into BaaS platforms and embedded payment solutions in 2021, with buy now, pay later services continuing to rise in popularity.

Wealthtech investment in 2020 was \$350 million, with venture capitalists choosing to invest in current portfolios rather than expanding their portfolios with investments in early-stage funding for startups. There were some exceptions — Wealthsimple raised \$86 million in 2020, and there were some interesting partnerships such as the one between robo-advisory company Nutmeg and JPMorgan Chase to launch ETFs for robo-advisor clients.



Despite a lack of significant investment, wealthtech began to go in some interesting directions, with more of a focus on real asset classes like real estate, and how to make them more accessible to investors. There's also increasing interest in B2B services that simplify and automate activities for wealth managers to help their clients.

Funding in the blockchain sector dropped from \$4.7 billion in 2019 to \$2.8 billion in 2020, but virtual assets continued to develop a more mainstream presence. As the sector continues to develop, some governments, like those in Hong Kong and Singapore, have begun to work out regulatory frameworks and licensing requirements for providers.

While it may seem counterintuitive, KPMG believes regulation is key to bringing more investors to a space that can experience a lot of volatility — good practices and regulations will protect investors. They can also help temper some of the skepticism around cryptocurrencies to attract more institutional investors.

There's less institutional skepticism around stablecoins because they're not as volatile as traditional crypto. In 2020, some banks like JPMorgan Chase even came out with their own coin, JP Morgan Coin, with increasing expectations that stablecoins will likely prove valuable in cross-border payments considering that they are transparent, secure and stable, and offer faster transactions, low fees, and privacy.

Some governments have also begun to wade into the digital currency pool. China began to test its central bank digital currency and it's not the only one to plan forward like that. The U.S. Federal Reserve, European Central Bank and Bank of England have all put forward requirements for offering central bank digital currencies.

As 2021 enters into its second half, KPMG anticipates a higher level of activity as far as central bank digital currencies are concerned. There may also be an increasing focus on regulation broadly and compliance and risk management specifically that may attract more sophisticated, institutional investors.

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