SEP 14
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Fintech investment falls narrowly but shows resilience in tough H1 2022

Article

The news: Global fintech investment showed its resilience in the first half of the year despite the market downturn, **falling just 3% to $107.8 billion from $111.2 billion a year before,**

according to a KPMG report.

The total number of deals for the period dropped 12% YoY to 2,980 from 3,372, mirroring the dropoff in investment in the broader technology sector.

Regional breakdown: The global economic downturn has led to a harsher climate for fundraising in which fewer deals are closing. Fintech funding is down overall, according to KPMG's report. Investment fell globally except for within the Asia-Pacific region.

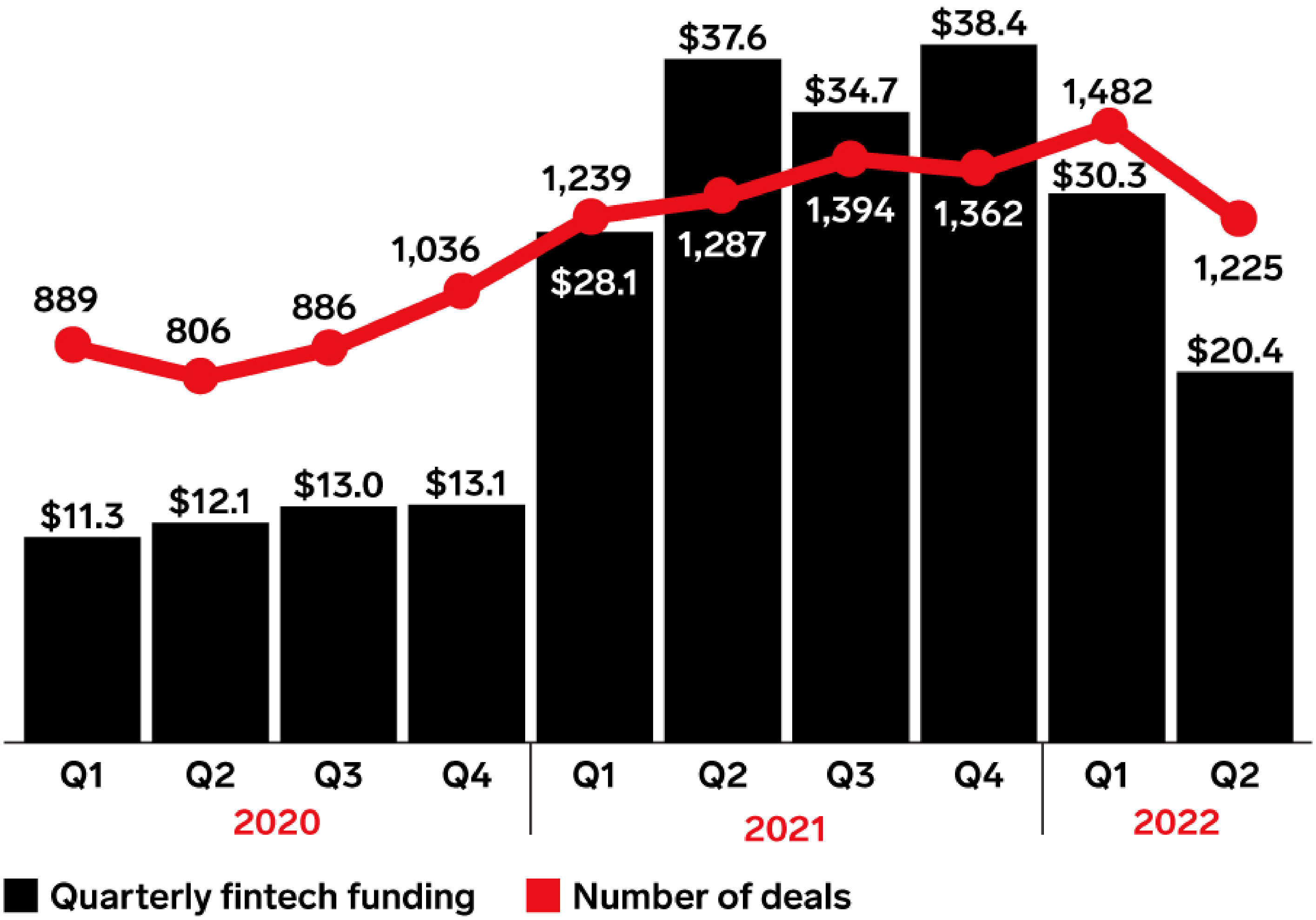
- **Americas:** The region attracted $39.4 billion in fintech investment, down 34% YoY from $59.7 billion. The US accounted for the vast majority of investment. Fintech investment in the country was $34.9 billion, a 30% drop from $49.7 billion in H221.
- **Europe, the Middle East, and Africa:** The region received $26.6 billion in funding, dropping 16% YoY from $31.6 billion. The decrease was driven by a decline in M&A deal value—which more than halved from $15.7 billion in H221 to $7.2 billion in H122.
- **Asia-Pacific:** Fintech investment hit an annual record high of $41.8 billion with six months left in 2022, largely driven by **Block's** $27.9 billion acquisition of Australia's **Afterpay**. Fintech investment in China remained muted. The largest deal was a $140 million raise by corporate expense management provider **Fenbeitong**.

What this means: Though funding hasn't dried up completely, the global fall-off in investment reaffirms that many fintechs have experienced a tough first half of the year and is emblematic of the wider decline in financing and deals. The drop in funding from Q1 to Q2 also highlights the influence of external factors on the fintech market.

Because fintechs experienced a huge year of growth in 2021, investment in the market this year looks low by comparison. In reality, it's remained robust, especially compared with other sectors, and with funding in 2019 and 2020. In this context, the global investment picture remains relatively upbeat, although H2 2022 is likely to be harder on fintechs looking to raise funds.

Quarterly Fintech Funding Worldwide, Q1 2020-Q2 2022

billions and number of deals



Note: fintech covers subcategories of banking, lending, payments, wealth management, insurance, and capital markets; equity financings into private companies only; includes the investment made in the quarter for tranched investments
Source: CB Insights, "State of Fintech Q2 2022," July 19, 2022

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What's to come? When the year started, investors and businesses believed that a buoyant fintech market would continue its growth trajectory during 2022. But black swan events like

Russia's invasion of Ukraine, a looming European energy crisis, and surging inflation have replaced that optimism with a sense of caution and uncertainty.

The bleaker market realities that characterized Q2 will likely continue for the rest of the year and may get worse before they improve. Investors will focus more on profitability and cash flow, rather than on customer acquisition at the expense of the bottom line. This will favor more mature fintechs that are generating profits and sustainable growth. Startups hemorrhaging cash to grow rapidly will be perceived as higher risk and will find it harder to secure financial backing.

A period of market consolidation is likely to ensue for the remainder of the year as funding shrinks, layoffs and down rounds become more common, and opportunities arise for acquisitions at bargain rates.