State of European FinTech 2023

The Return of Funding discipline resulted in a Flight to Quality and Profitability to Survive

FINCH CAPITAL

Introduction

Welcome to Finch Capitals 8th edition of the *“State of European FinTech”* report in which we take a closer look at Europe’s FinTech sector. Given the market backdrop, we focus on 3 core areas that provide an analysis of the sector and a forecast for opportunities that will likely emerge including:
(1) State of European Fintech, (2) State of Fintech in Key European Countries and (3) Opportunities Likely to Emerge In Current Situation

These topics are good proxies for the overall health of European FinTech which, as we predicted last year, has now entered a period of contraction. Unsurprisingly, there will be losers, but like in every market cycle, there will be winners as well. Laser focus on building profitable businesses at sustainable valuations will drive economic value to all stakeholders in the future.

Finch Capital is a Growth Investor in Europe’s Biggest Technology Transitions. We currently focus on 6 themes: FinTech (incl. Health and Insurance), Payments, Business Applications (Incl Accounting, Tax), Regulatory and ESG Software and Real Estate Technology. We back companies generating €2m+ in ARR by investing €5 to €15m initially and help them scale to €30m-€50m revenues by building sustainable and capital efficient business models. We’ve invested in ±45 companies including Fourthline, Goodlord, Grab, ZOPA, Twisto, AccountsIQ, NomuPay and Symmetrical.

Finch Capital consists of a team of 12 investment professionals with wide entrepreneurial experience located across offices in Amsterdam, London and Dublin. For more information see www.finchcapital.com and subscribe to our newsletter.

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Executive Summary

The year of reckoning has arrived in European FinTech. The Return of Funding discipline resulted in a Flight to Quality and Profitability to Survive for the entire ecosystem.

- Funding dropped by 70% to pre 2020 levels driven by the end of mega round and flight to quality;
- A retreat in Payments and Challenger Banks as the traditional resilient sector loses its crown to Crypto and Lending given valuation benchmarks achieved in 2022;
- US, Asian and Strategic investors are retrenching and are in 50-100% less deals than they were last year;
- M&A has remained stable with volumes on track to match 2022 levels, but deal sizes have fallen dramatically with 19% of deals above €500m vs 30% last year;
- Valuations are stabilizing in the public markets which will help private companies to get funding/exits, but at different terms than before, which will take time before all companies reset "last round" to "current" valuations

European local ecosystems have been impacted differently based on their maturity

- US investors were ranking in the top lists in major countries in 2021/H1 2022, but have disappeared this year
- UK, Germany and France saw a 70% drop in funding value BUT exits were getting done consistently
- Ireland and Netherlands are more elastic to single deals (Fourthline & NomuPay respectively) in both regions
- Poland recorded biggest drop, but the crypto infrastructure sector is gaining momentum

The trend of a shift to software and B2B FinTech continues in 2023. More than 50% of all fintech deals are B2B software versus 17% in 2016.

- Business models: Some balance sheet business are in tough spot with loan losses rising as well as those without own deposit funding. Focus on recurring software businesses with strong margins and NRR vs. product led hyper growth.
- Key areas we foresee strong momentum the next 6 to 12 months are:
  - Revisit of the payment investment landscape, with accelerated consolidation expected to boost profitability and growth
  - RegTech continues to show attractive growth in KYC and AML
  - Consolidation of Open Banking and Banking as a Service continues
  - Generative Artificial Intelligence will get at scale in Insurance and Banking
  - Automation and Digitalization of the CFO and HR function continues to increase control and efficiency

1. State of European FinTech

The Year 2023 Can Be Seen As A Year The European Fintech Market Adapts To The New Normal

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Macro

€4.6Bn
Down 70% from €15.3Bn in H1 2022

Capital invested in European FinTechs in H1 2023

463
Down 48% from 884 in H1 2022

Number of deals in H1 2023

-84%

Decrease in M&A transaction value versus H1 2022

-3100

Announced total laid-off employees in European FinTechs in the past year

Insights

50%
Up from 45% in H1 2022

UK share of total capital raised

19.7%
Up from 14.1% in H1 2022

Share of announced flat and down rounds in H1 2023

3rd
Down from 1st in 2022

Rank of Payments & Banking in amount raised for all FinTech sub sectors

1054
Last 12 months

Number of hires from Top 10 fastest growing European FinTechs

Source: Pitchbook, H1 2023; Sifted, Layoff.fyi

After Many Years Dominating, Payments & Banking is No Longer The Leading Sub Sector

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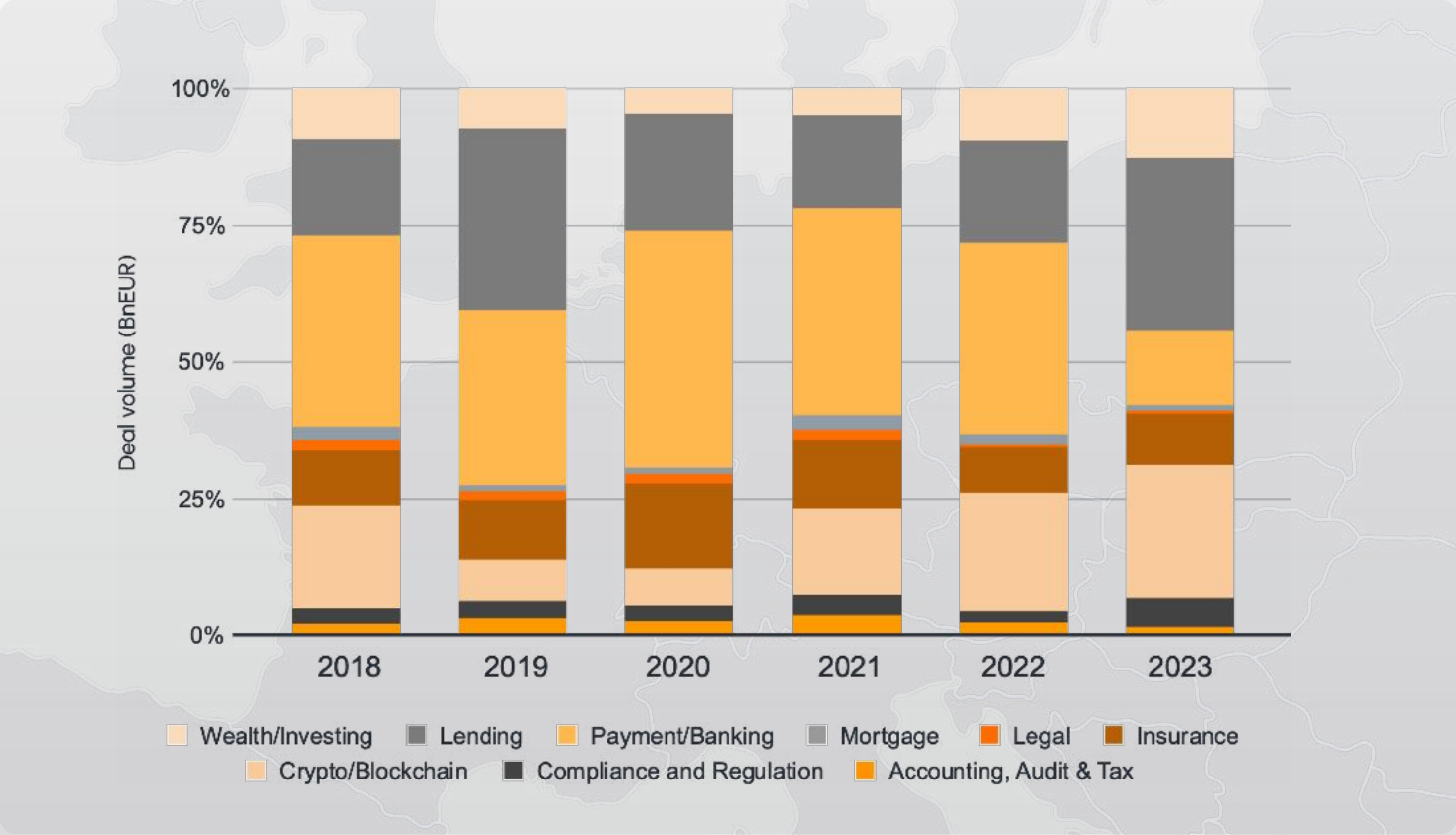
Is every fintech company becoming a crypto company? 1 in 3 Fintech company is labeled as Crypto/Blockchain

The top subsectors in # deals

1. Crypto/Blockchain
2. Payment/Banking
3. Lending
4. Wealth/Investing
5. Insurance

Top subsectors in deal volume

1. Lending*
2. Crypto/Blockchain
3. Payment/Banking
4. Wealth/Investing
5. Insurance



*€564m round by lending tech Abound was the largest of H1 2023, mix of debt and equity

** 2023 numbers are from H1 2023

Source: Finch Capital Team analyses, Pitchbook

Funding Back To Pre 2020 Level Due To End of Mega Rounds And Flight To Quality

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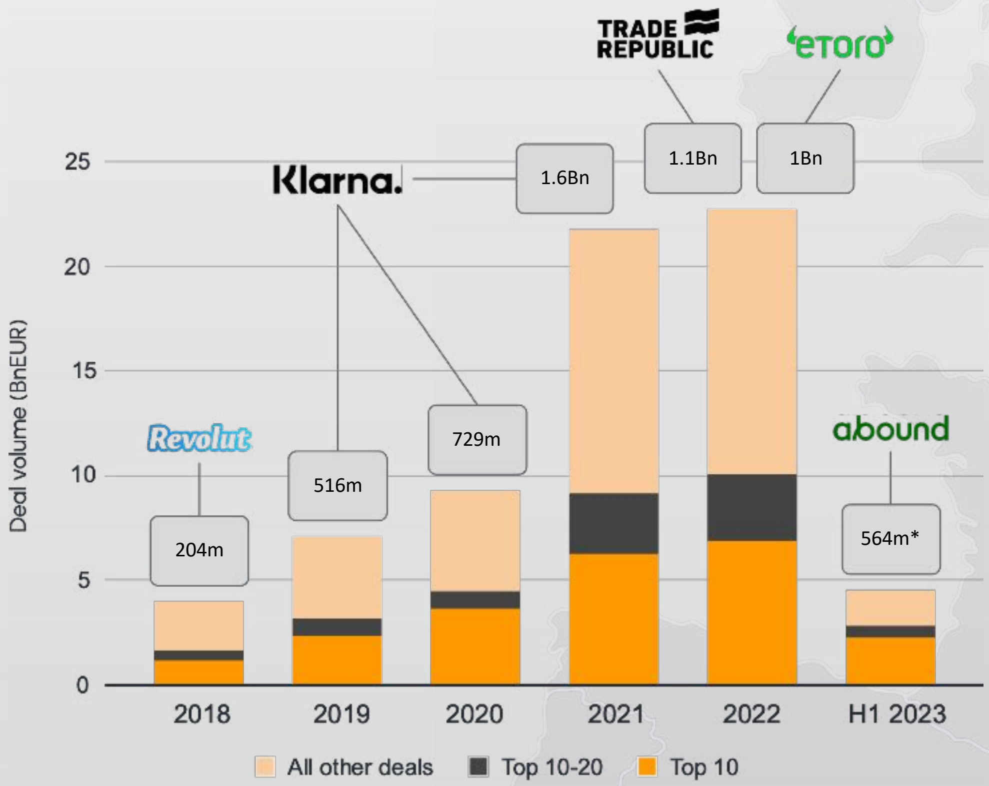
Funding dropped the most for the non top 20 rounds



Top 20 rounds are back to pre 2020 levels

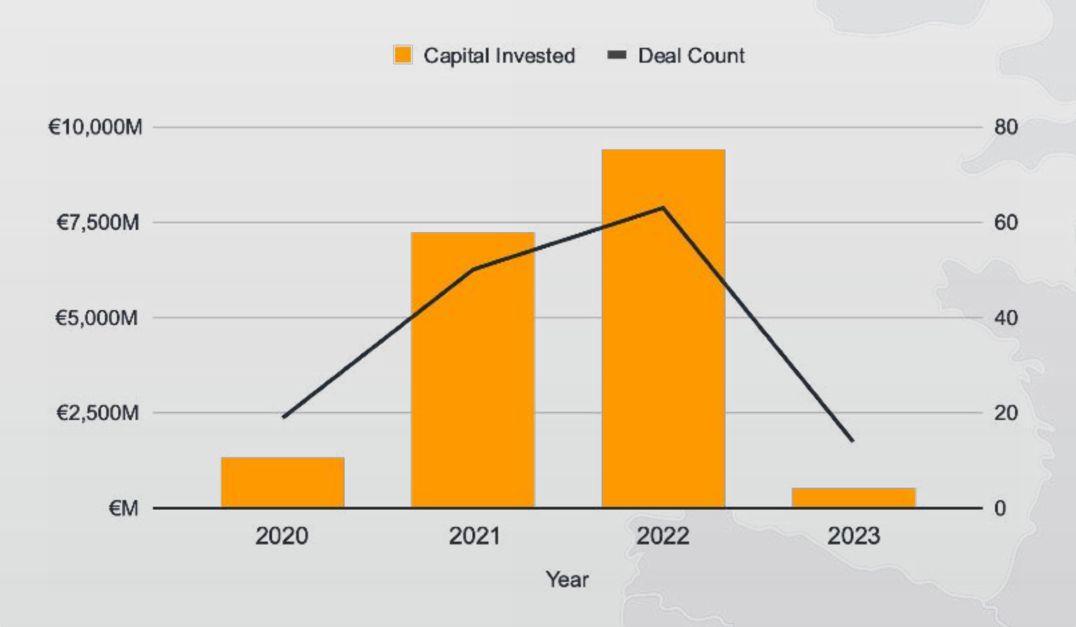
* Majority of the round was debt

Source: Finch Capital Team analyses, Pitchbook

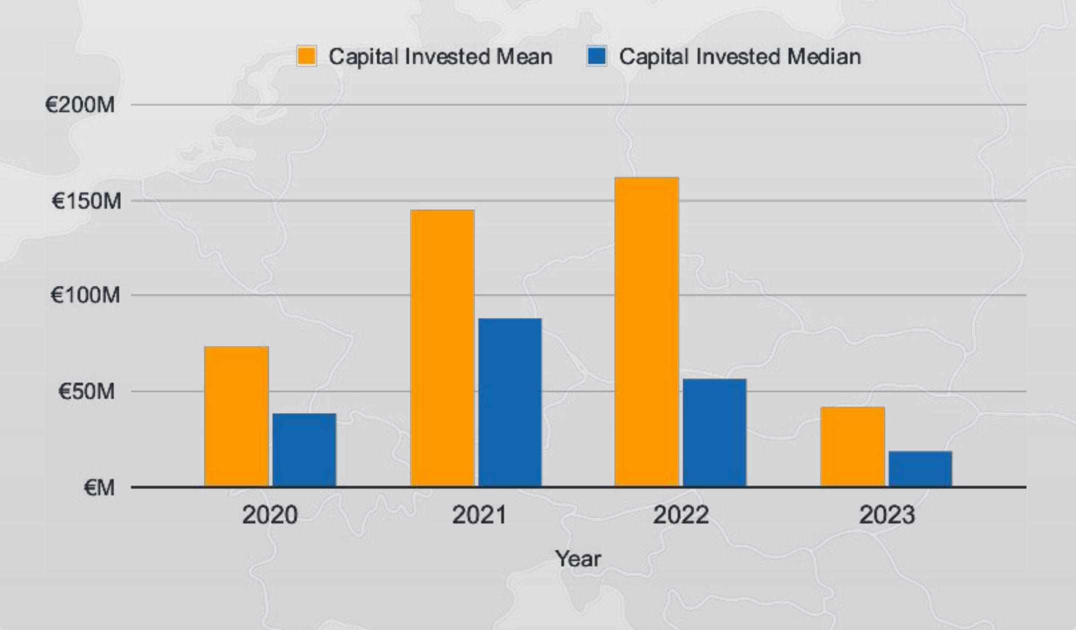
In 2023, US Investors Have Retreated From Europe

In a change from what has been seen in recent years, top US VC investors have pulled back from Europe. This opens the door for European investors to lead the way in their home continent.

Deal Count and Capital Invested



Capital Invested Mean and Capital Invested Median

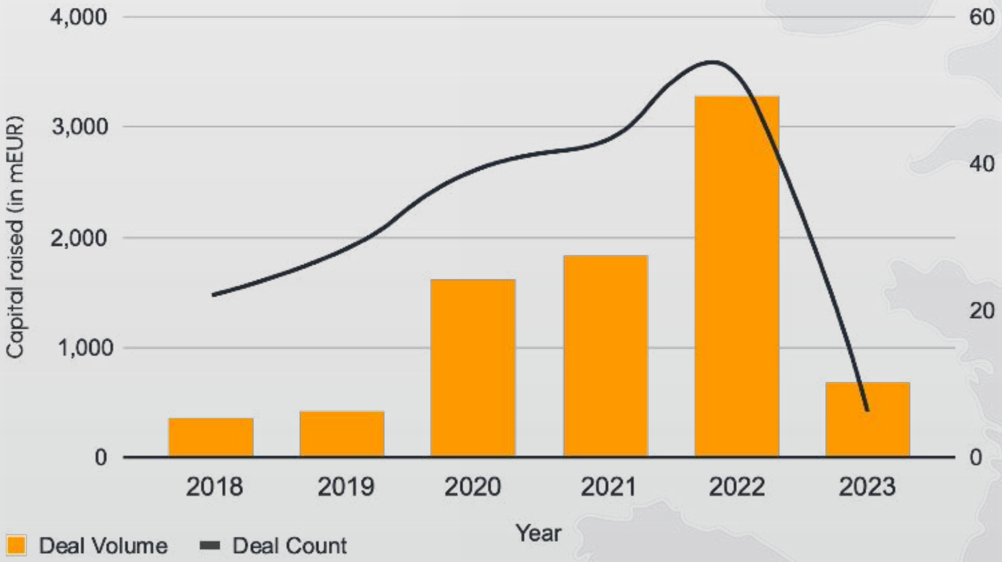


a16z IVP Lightspeed SEQUOIA COATUE INSIGHT PARTNERS TIGERGLOBAL Accel BCV

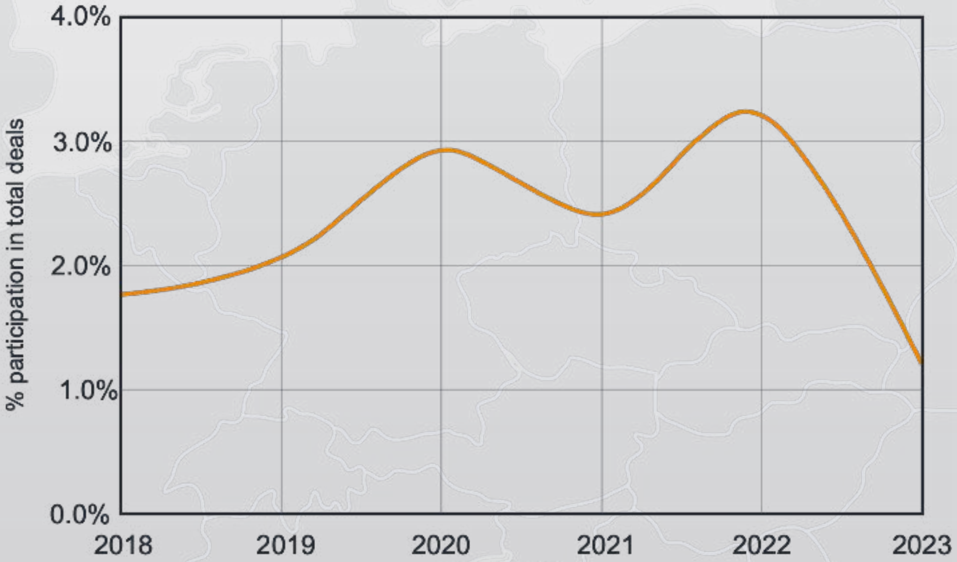
Source: Finch Capital Team analyses, Pitchbook
** 2023 numbers are from H1 2023

Strategic Investors' Participation In VC Deals Is Coming Down

Less deals with participation from top 10 historical strategic investors* partly because the total number of deals is coming down



A declining % participation of top 10 historical strategic investors in total deals shows that they are collapsing faster than the market



Top 10 historical CVC, Corporations, Family Offices: ABN AMRO Ventures, Coinbase Ventures, Digital Currency Group, Digital Magics, ING Ventures, Portage Ventures, Schibsted Growth, Tencent Holdings, UNIQA Ventures, Wayra UK
** 2023 numbers are from H1 2023
Source: Finch Capital Team analyses, Pitchbook

A Reset In Valuations Will Be Needed To Restart Unicorn Level Exits

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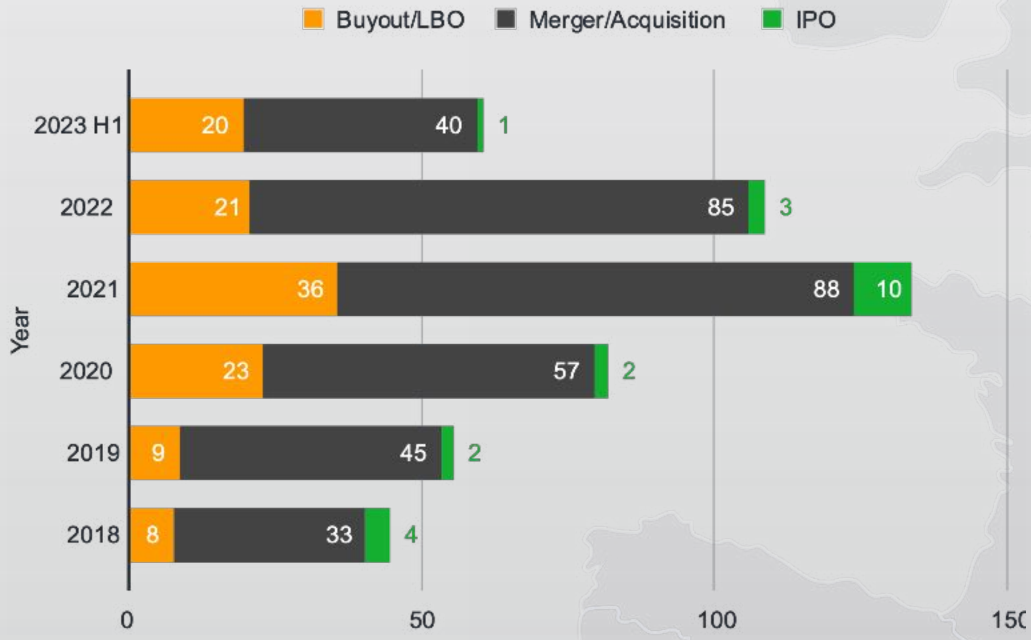
The Exit market remains fairly active in terms of number of exits, but mainly for smaller deal sizes, as share of deals valued over USD 500m have come down from 30% to 19%.

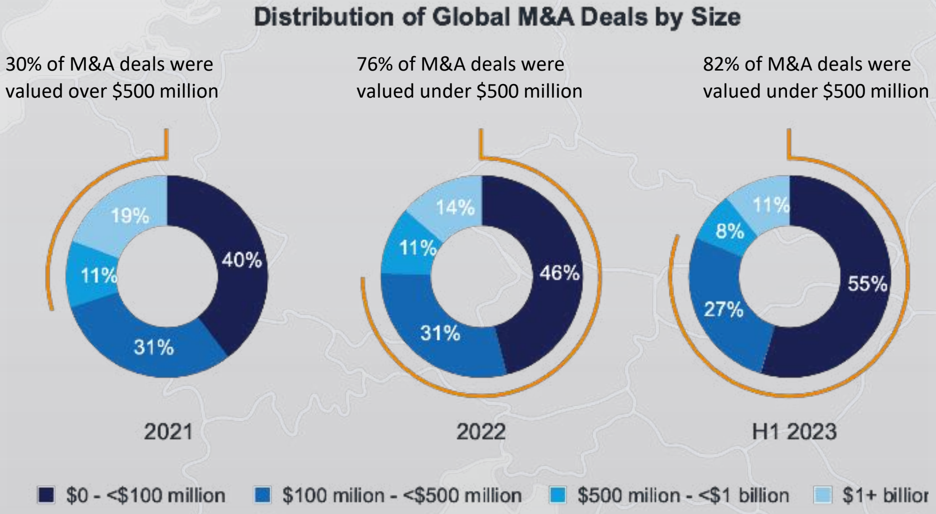
FinTechs are becoming more attractive to PE funds for buyouts. In H1 2023, with 33% of deals being Buyout/LBO, versus 19% in 2022.

European FinTech Exits



Global FinTech M&A Statistics (cont.)

In the first half of 2023, 82% of M&A deals with announced amounts were valued under $500 milion.



30% of M&A deals were valued over $500 million

76% of M&A deals were valued under $500 million

82% of M&A deals were valued under $500 million

Source: Finch Capital Team analyses, Pitchbook, FT Partners

Several Of Europe's Most Valued FinTech's Continued To Hire, But Increasingly Feel Pressure

Employee Growth - last 12 months*

	Company	Tech/IT/Product	Sales/Marketing/BusDev/Ops
Payment & Banking	Monzo	+23% ↑	+22% ↑
	Adyen	+26% ↑	+31% ↑
Lending	Klarna	-17% ↓	-18% ↓
	Funding Circle	+10% ↑	+13% ↑
Crypto & Blockchain	Ledger	+1% ↑	+10% ↑
	Blockchain.com	-29% ↓	-10% ↓
Wealth & Investing	eToro	-9% ↓	-11% ↓
	Freetrade	-52% ↓	-25% ↓
Insurance	Wefox	+18% ↑	+18% ↑
	Alan	+13% ↑	+10% ↑

Adyen have laid off expensive senior hires and increased junior headcount

Payments group Adyen's shares plunge almost 40% after profits disappoint

Dutch company counts cost of sustained recruitment and fierce US competition

Startups

With new cuts, Klarna joins the ranks of companies having to conduct more than one layoff

Freetrade to cut up to 15% of staff

* From H1 2022 to H1 2023

Source: LinkedIn, Financial Times, TechCrunch

Multiples Came Down For All Sub Sectors With Early Signs Of Stabilisation

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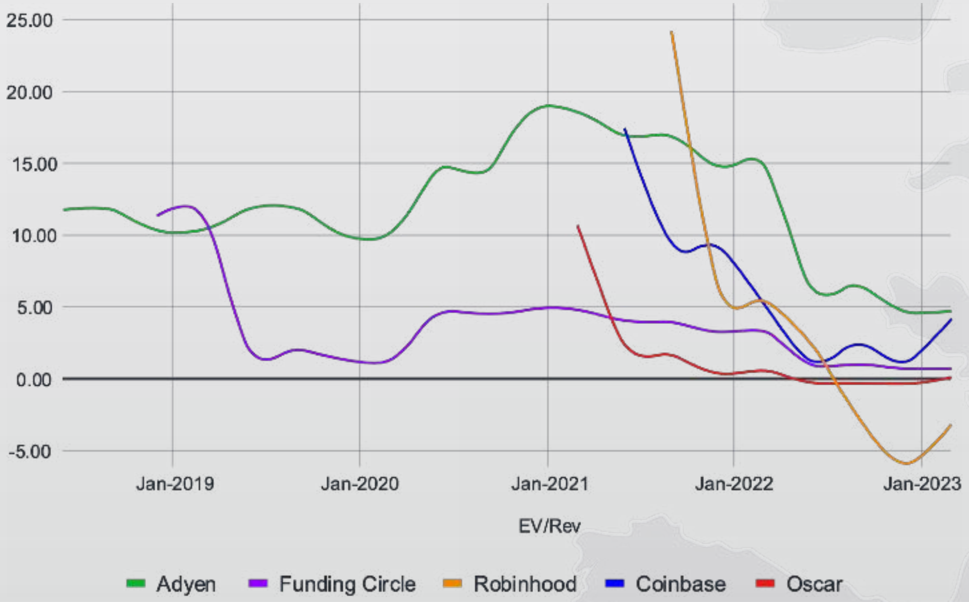
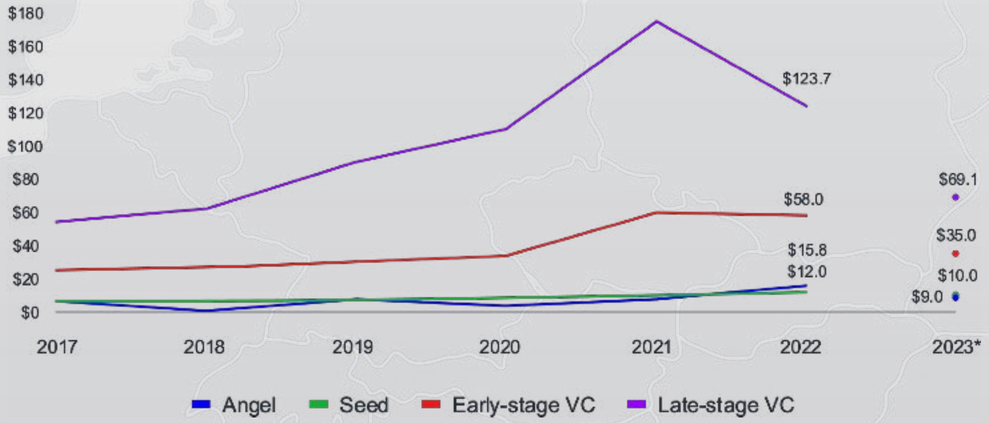
Public company valuations are stabilising



Private valuation adjustments have taken place

Valuations falling significantly

Median fintech VC pre-money valuation ($M) by stage



Source: PitchBook · Geography: US
* As of June 30, 2023

2. State of FinTech in key European Countries

UK FinTech: Maturity Shines Amidst Decline; Consistent Exits Fostering An Improved Outlook

H1'22
€6.49B

66,1%

H1'23
€2.20B

-5%
Exit transaction volume H1'22 to H1'23

Blockchain & Crypto most active subsector in H1'23
28% share of total no. deals

Largest H1'23 deal - £500m
GSR Ventures
abound

-45%
Non-exit transaction volume H1'22 to H1'23

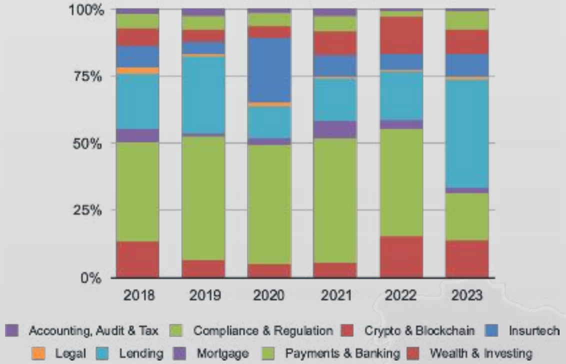
-12.3%
Median post-money valuation 2022 to 2023

2023 (H3) largest announced exit €10.76B
worldpay

Interesting startups

eflow	Financial markets regulatory software
FNA	Network analytics platform
Delio	Private markets infrastructure platform
TRIVER	API-first credit platform
KORE	Financial product lifecycle platform
Solomonic	Litigation analytics platform
RENEW RISK	Renewable energy financial software
mistho.	Open payroll software

Capital Invested (€)



Key Exits & Takeaways

RewardGateway	Reward gateway was acquired by Edenred for £1.15bn on 16 May 2023.
cushon	Cushion was acquired by NatWest Group for €144mn on 1 June 2023.
kantox	Kantox was acquired by BNP Paribas via an estimated €120mn LBO on 13 July 2023.
British Business Bank	British Business Bank acts as the largest local LP having invested in more than 50 venture funds with UK mandates.

Top Investors

octopus ventures	6
ASCENSION	6
Fuel Ventures	5
Augmentum	4
HAMBRO PERKS	4

Source: Finch Capital Team analyses, Pitchbook

Netherlands FinTech: Paradox With Declining Deals, Rising Capital; RegTech Takes the Lead with Fourthline's Boost

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H1’22
€133.1M

9,7%

H1’23
€146.1M

-75%
Exit transaction volume H1’22 to H1’23

Blockchain & Crypto most active subsector in H1’23
35% share of total no. deals

Largest
H1’23 deal - £50m
fourthline
FINCH CAPITAL

-39%
Non-exit transaction volume H1’22 to H1’23

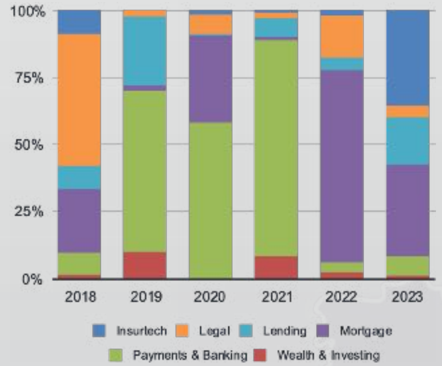
+76%
Median deal size 2022 to 2023

2023 largest exit €551m
PayU

Interesting start-ups

FINOM	Digital business account benefits
in3	Pay in 3 instalments
Sygno	Financial crime analysis software
The Social Handshake	Payroll charity software
fourthline	KYC & AML software
blanco	Wealth management software
FUNDSUP	Connecting founders and investors
Fledgerr	Equity management platform

Capital Invested (€)



Key Exits & Takeaways

fourthline	Removing Fourthline from the equation would result in a 28% decrease in capital invested H1’22 vs H1’23.
PayU	PayU was acquired by Rapyd for $610mn on 1 August 2023.

Growth stage companies receive a larger slice of the pie as the early-stage market struggles for leftovers and investors in mature companies hold off on exits.

Top Investors

ANTLER	3
FINCH CAPITAL	1
Accel	1
connect	1
FJ LABS	1

Source: Finch Capital Team analyses, Pitchbook

Ireland FinTech: Seed Deal Activity Dominates, Opening Gap For Growth Stage; NomuPay's Mega Raise Skews Funding Landscape

FINCH CAPITAL

H1'22
€75.7M

28.1%

H1'23
€54.4M

2023 largest exit €550m
immedis

Lending most active subsector in H1'23
33% share of total no. deals

Largest
H1'23 deal - £50m
NomuPay
FINCH CAPITAL

-54%
Non-exit transaction volume H1'22 to H1'23

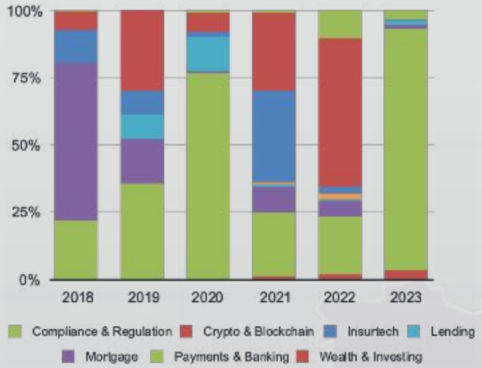
+4%
Median post-money valuation 2022 to 2023

+3%
Median deal size 2022 to 2023

Interesting startups

dimply	AI financial insights software
circit	Automated audit platform
NomuPay	Unified payments platform
AccountsIQ	Smart cloud accounting
webio	Credit and payments conversational AI
inaza	Real-time insurtech platform
CORLYTICS	Risk based approach to Regulatory Compliance
fonoa	Tax and compliance automation

Capital Invested (€)



Key Exits & Takeaways

NomuPay	Absent NomuPay, Ireland experienced a 94% funding drop H1'22 vs H1'23.
immedis	Immedis was acquired by Ultimate Kronos Group with help from its investor backers for an estimated €550m on 1 July 2023.

Seed funding comprised the majority of fintech deals seen in H1'23 suggesting a gap in the growth stage market in the coming period that is waiting to be filled.

Top Investors

Enterprise Ireland	4
FINCH CAPITAL	2
DELTAPARTNERS	1
Fuel Ventures	1
MIDDLEGAME VENTURES	1

Source: Finch Capital Team analyses, Pitchbook

Germany: Crypto Activity Peaks Amid Deal Dive; Mature Firms Command Capital Spotlight

FINCH CAPITAL

H1’22
€2.29B

76.0%

H1’23
€0.55B

-25%
Exit transaction volume H1’22 to H1’23

Crypto & Blockchain most active subsector in H1’23
27% share of total no. deals

Largest
H1’23 deal - €140m
Moonfare
INSIGHT PARTNERS

-44%
Non-exit transaction volume H1’22 to H1’23

+356%
Median post-money valuation 2022 to 2023

+5%
Median deal size 2022 to 2023

Interesting startups

finway
SMB financial management

tilta
B2B embedded lending infrastructure

DEGURA
Digital pension management

PROCUROS
B2B transaction automation

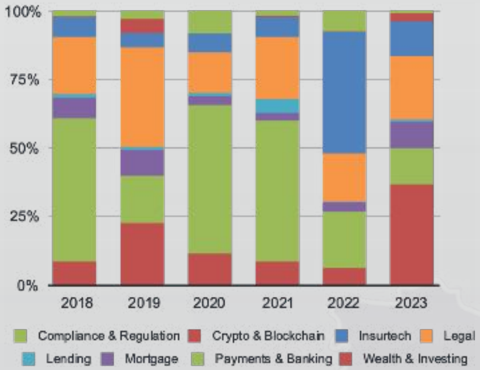
Moonfare
Private market investing platform

senken
Climate finance gateway platform

NELLY
Digitised signature and billing

AFILIO
Retirement planning platform

Capital Invested (€)



Key Exits & Takeaways

HRWORKS

Overall funding plummeted 76% when comparing H1’22 to H1’23. Wealth & Investing technology holds the line with €200M raised in H1’23.

Overall funding plummeted 76% when comparing H1’22 to H1’23. Wealth & Investing technology holds the line with €200M raised in H1’23.

Median valuations and deal size increase as overall funding declines suggesting more mature companies are receiving funding as the early-stage bears the brunt of the downturn.

Top Investors

b2venture	3
Balderton capital	2
FINTECH COLLECTIVE	2
MOTIVE PARTNERS	2
HV CAPITAL	2

Source: Finch Capital Team analyses, Pitchbook

Poland FinTech: Steep Decline Cushioned by Crypto & Blockchain; A Nascent Sector Grappling with Sparse Exits

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H1’22
€6.41M

89.9%

H1’23
€0.62M

-78%
Exit transaction volume H1’22 to H1’23

Crypto & Blockchain and Insurtech most active subsectors in H1’23 respective 50% share of total no. deals

Largest H1’23 deal - €540K
cryptiony
ff VENTURE CAPITAL

-44%
Non-exit transaction volume H1’22 to H1’23

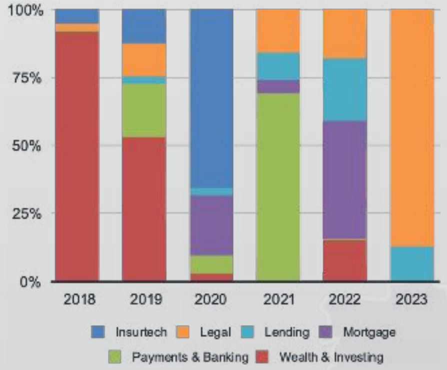
€540K (87%)
invested in Crypto & Blockchain

-75%
Median deal size 2022 to 2023

Interesting startups

cryptiony	Cryptocurrency tax software
Climatica	Digital weather insurance tool
symmetrical	Smart payroll software
solvbot	Economic legal processes software
FIZEN	CEE open banking
AUTENTI	E-signature and identity services
Quantee	Insurance pricing platform
alphamoon	Financial document processing

Capital Invested (€)



Key Exits & Takeaways

Poland’s fintech sector remains nascent. A 75% decline in deal size and a non-existent exit landscape points to the emerging nature of Poland in the Fintech landscape.

The Polish Development Fund Group (PFR) aims to direct capital towards Polish early-stage companies by functioning as a funds of funds manager.

With over 70 funds in its portfolio, PFR acts as an LP across various venture capital & private equity funds mandated to invest in Polish businesses.

Top Investors

ff VENTURE CAPITAL	1
Pointer.Capital	1
FINCH CAPITAL	1
Arkleybrinc	1
SPiNAKER	1

Source: Finch Capital Team analyses, Pitchbook

France FinTech: Amidst Funding Slowdown, Ledger & Crypto Lead; Shifting Deal Landscape Mirrors Evolving Investor Preferences

FINCH CAPITAL

H1’22
€1.92B

67,7%

H1’23
€0.62B

+13%
Exit transaction volume H1’22 to H1’23

Crypto & Blockchain most active subsector in H1’23 29% share of total no. deals

Largest H1’23 deal - €460m
LEDGER
10T HOLDINGS

-53%
Non-exit transaction volume H1’22 to H1’23

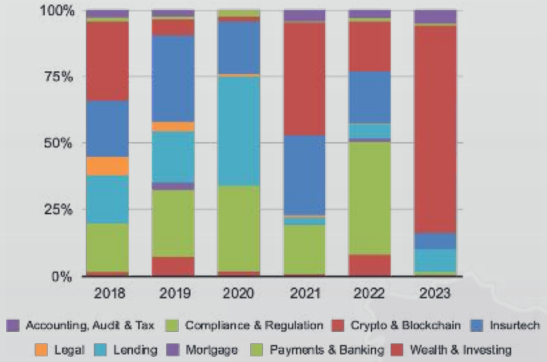
+3%
Median post-money valuation 2022 to 2023

-17%
Median deal size 2022 to 2023

Interesting startups

obat	Construction invoicing & planning software
betterway	Employee mobility payment software
dotfile	No-code compliance platform
algoan	Credit scoring API
Koala	Flight insurance platform
LEDGER	Cryptocurrency security technology
pono	Collateral management platform
FUTURZ	ESOP-alternative platform

Capital Invested (€)



Key Exits & Takeaways

LEDGER	Ledger comprised €460M of the €480M invested into crypto and 74% of the total French Fintech funding.
NeoXam	Neoxam was acquired by Eurazeo, Mr Serge Delpla and its management via an approximate $100m LBO on 25 January 2023.

Payments & Banking suffered from the steepest decline in new funding having raised €1.09B in 2022 to only having raised €10M.

Top Investors

kima ventures	8
SUPER CAPITAL	6
Mandalore Partners	4
ENTREPRENEUR FIRST	3
BLACKFIN CAPITAL PARTNERS	3

Source: Finch Capital Team analyses, Pitchbook

Spain FinTech: Funding Dips, Deal Size Rises; Early-Stage Landscape with Promising Resilience in European Context

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H1’22
€172.7M

25.7%
↓

H1’23
€128.0M

-33%
Exit transaction volume H1’22 to H1’23

Crypto & Blockchain most active subsector in H1’23
31% share of total no. deals

Largest
H1’23 deal - €30m
ID FINANCE
ASH PARK

-29%
Non-exit transaction volume H1’22 to H1’23

-3%
Median post-money valuation 2022 to 2023

+62%
Median deal size 2022 to 2023

Interesting startups

taxdown
Tax-saving & filing software

Bdeo
Visual intelligence insurance software

nebeus
Crypto-backed financing platform

twinco capital
Supply chain finance

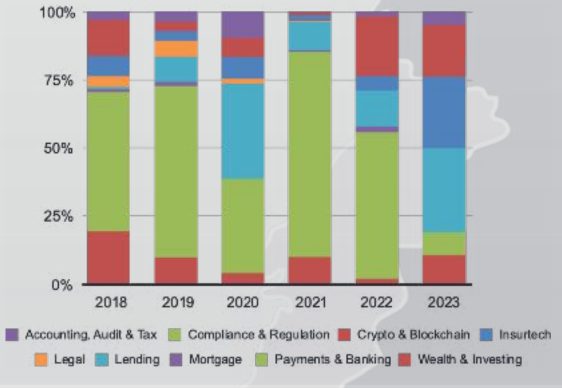
Payflow
Earned-wage access

ID FINANCE
Retail finance solutions

snab
Payments, cash & treasury management

fuell
Card and expense management

Capital Invested (€)



Key Exits & Takeaways

gtt
Gestión Tributaria Territorial was acquired by AnaCap Financial Partners and Stirling Square Capital Partners via an estimated $300m LBO on 3 July 2023.

Median deal size remains relatively low in Europe sitting at €1.94M after its 62% rise signaling the early-stage that the Spanish fintech sector sits in.

The Spanish fintech funding decline was less extreme than its European counterparts. Increased cheque sizes and a more resilient funding landscape suggests Spanish Fintech is poised for strong developments.

Top Investors

inveready	4
FJ LABS	3
JME VENTURES	3
LANAI	3
Actyus	2

Source: Finch Capital Team analyses, Pitchbook

The Nordics FinTech: Funding Turbulence Meets Crypto Resilience; Lending Bears The Brunt

FINCH CAPITAL

H1’22
€895.0M

80.0%

H1’23
€179.2M

-33%
Exit transaction volume H1’22 to H1’23

Crypto & Blockchain most active subsector in H1’23 34% share of total no. deals

Largest H1’23 deal - €35m
Tencent 腾讯
LUNAR

-57%
Non-exit transaction volume H1’22 to H1’23

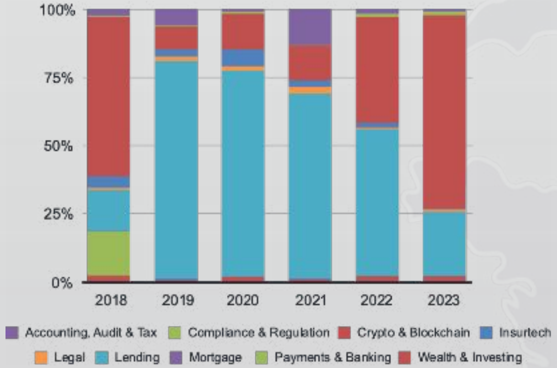
-18%
Median post-money valuation 2022 to 2023

+9%
Median deal size 2022 to 2023

Interesting startups

Scaleup finance	CFO-as-a-Service
MAZEPAY	Smart Procurement Software
Cardboard	SaaS Spend Management
nordkap	Treasury management software
LUNAR	Digital banking application
booksalon	Salon payment and appointment platform
LUCINITY	AI-powered AML software
Lassie	Digital pet insurance platform

Capital Invested (€)



Key Exits & Takeaways

Kron. Kron was acquired by The Storebrand Group for approximately €40m on 3 January 2023.

NOMENTIA Nomentia was acquired by Inflexion Private Equity Partners via a €349m LBO on 25 July 2023.

Blockchain & Crypto was the most active and well-funded sector, accounting for 34% of deal volume and 49% of new capital invested. Lending tech suffers the worst decline, showering a drop from €1.09B to €50M.

Top Investors

ANTLER	4
Alliance VC	3
Fin	2
NFT VENTURES	2
Seed capital	2

Source: Finch Capital Team analyses, Pitchbook

3. Opportunities Likely to Emerge In Current Situation

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Themes shaping FinTech

RegTech

1 RegTech continue to show attractive growth in KYC and AML

Banking

2 Consolidation of Banking as a Service (BaaS) continues driven by regulatory and investor pressure with a likely split of business models between Banking Software vs Regulatory Banking as a Service

3 Open Banking will consolidate and expected to reach real momentum with use cases after a decade of hope

Payments

4 As premium multiples for Payment companies like Stripe and darling Adyen faded. Investors and Payment Companies revisit the Payment investment landscape, with accelerated consolidation expected to boost profitability and growth

Insurance

5 Generative AI will reach the insurance industry first as complexity is tackled

CFO

6 Increasing oversight outside of accounting gives CFOs a headache to solve resulting in accelerated demand for Automation and Digitalization

7 New breed of ERP for S & MEs with a finance focus as controlling the procurement has never been so apparent for CFOs

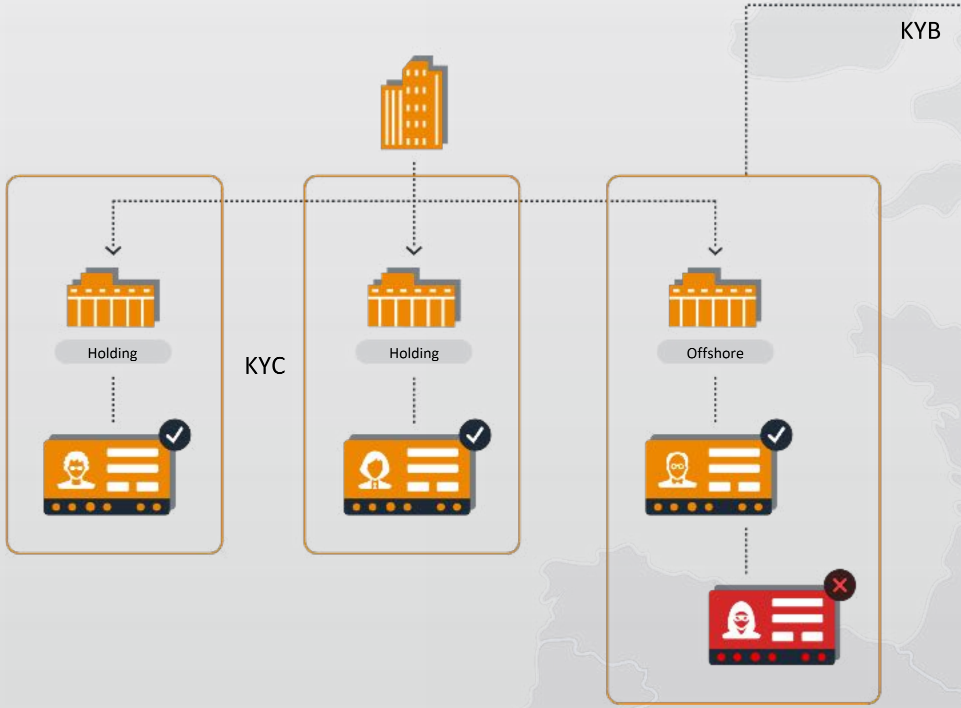
HR & Payroll

8 As spend per employee increases by 50%, HR team get serious about impactful technology decisions to increase efficiency and productivity

FINCH CAPITAL

AML Moves to KYB As Complexity Gives Rise To Differentiation

Passport checking is not enough. There are layers of complexity, holding and shell companies that need to be analysed in a business setting



Workflow and case management tools are the answer for streamlined operations

Ownership structure deep dives → UBO (ultimate beneficial owner) → KYC'ing the UBO

$35 million for a bank onboarding 10,000 new clients per annum

KYB checks can cost an additional $18-25 per check

Source: Fenergo, Finch estimates

Regulatory Pressure On BaaS Providers Has Left Industry With Big Question Marks

Lithuania revokes licence of former Railsr unit

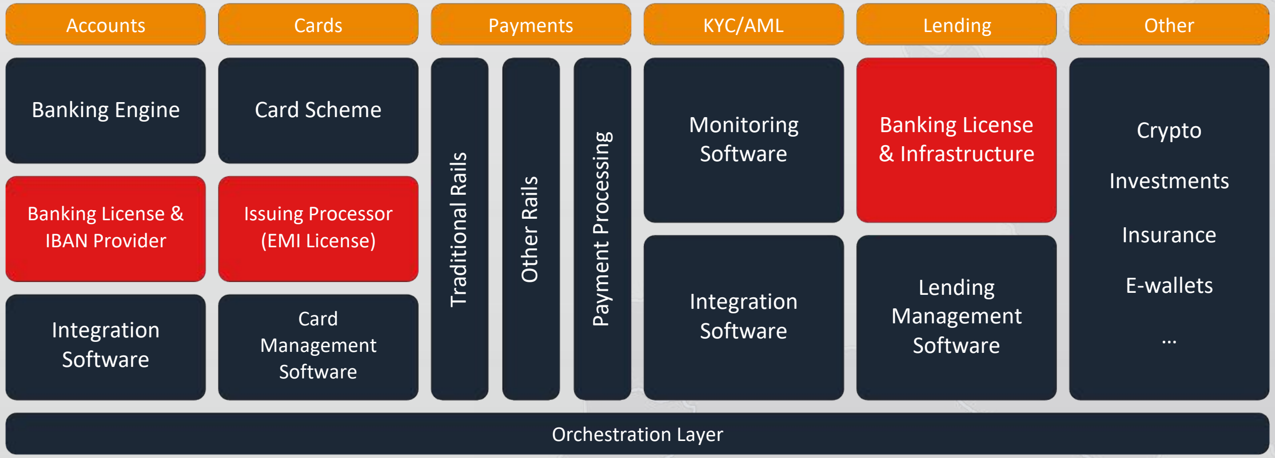
22 June 2023

Solaris may only accept new customers with BaFin's permission

Friday 20 January 2023 12:41 CET | News

News | March 17, 2023

FCA flags poor controls at UK payment firms

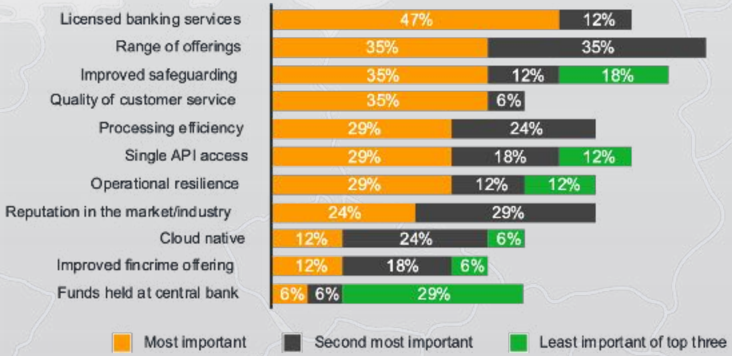


Accounts	Cards	Payments	KYC/AML	Lending	Other
Banking Engine	Card Scheme	Traditional Rails Other Rails Payment Processing	Monitoring Software	Banking License & Infrastructure	Crypto Investments Insurance E-wallets …
Banking License & IBAN Provider	Issuing Processor (EMI License)		Integration Software	Lending Management Software	
Integration Software	Card Management Software				

Orchestration Layer

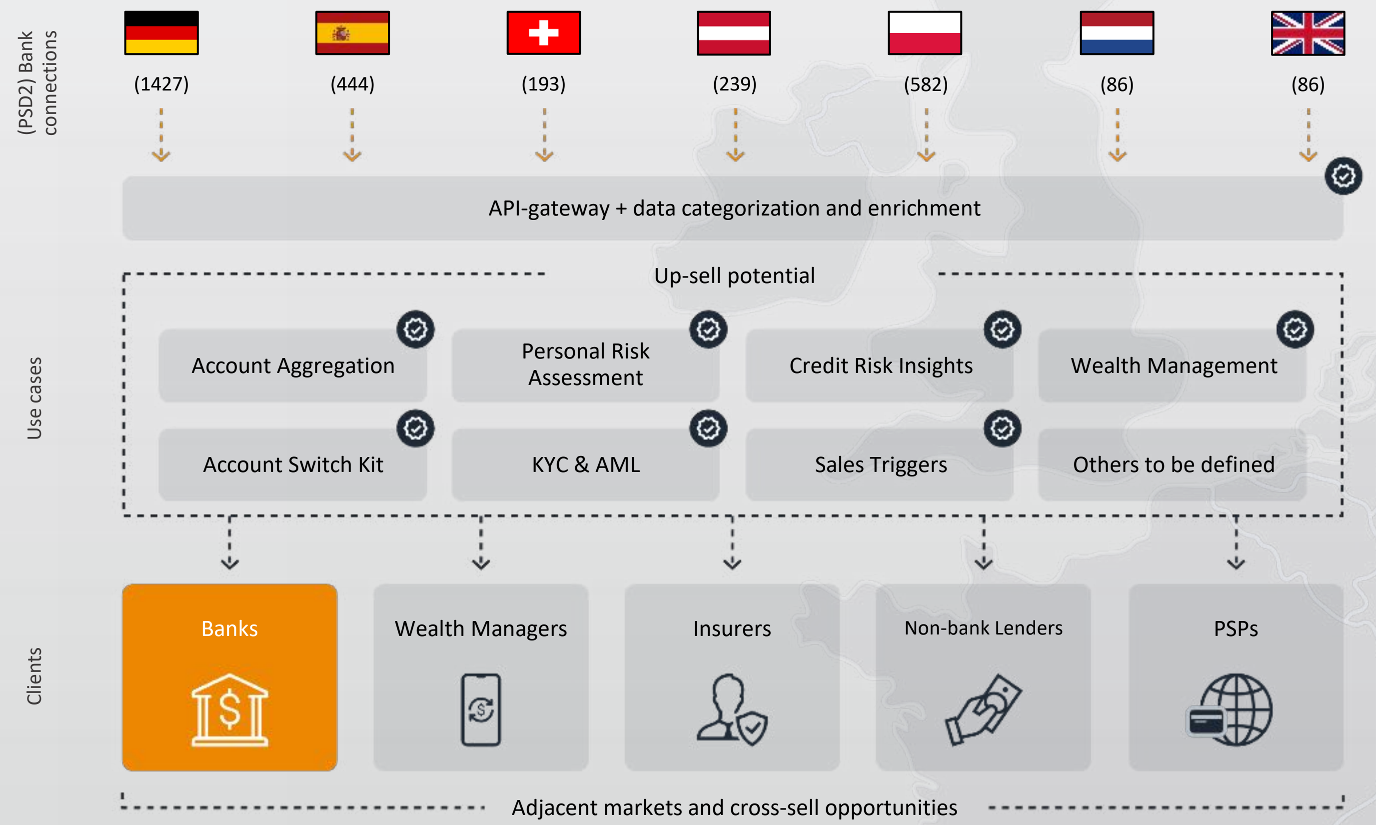
Safeguarding has become one of the most important factors

Q. What are the top three factors when evaluating a provider? (Base 17; Multiple options allowed)



Complexity of this ecosystem means that it's incredibly hard for end users to know who is responsible for their money, and companies looking to use BaaS providers are ever-more confused about who they need to do what

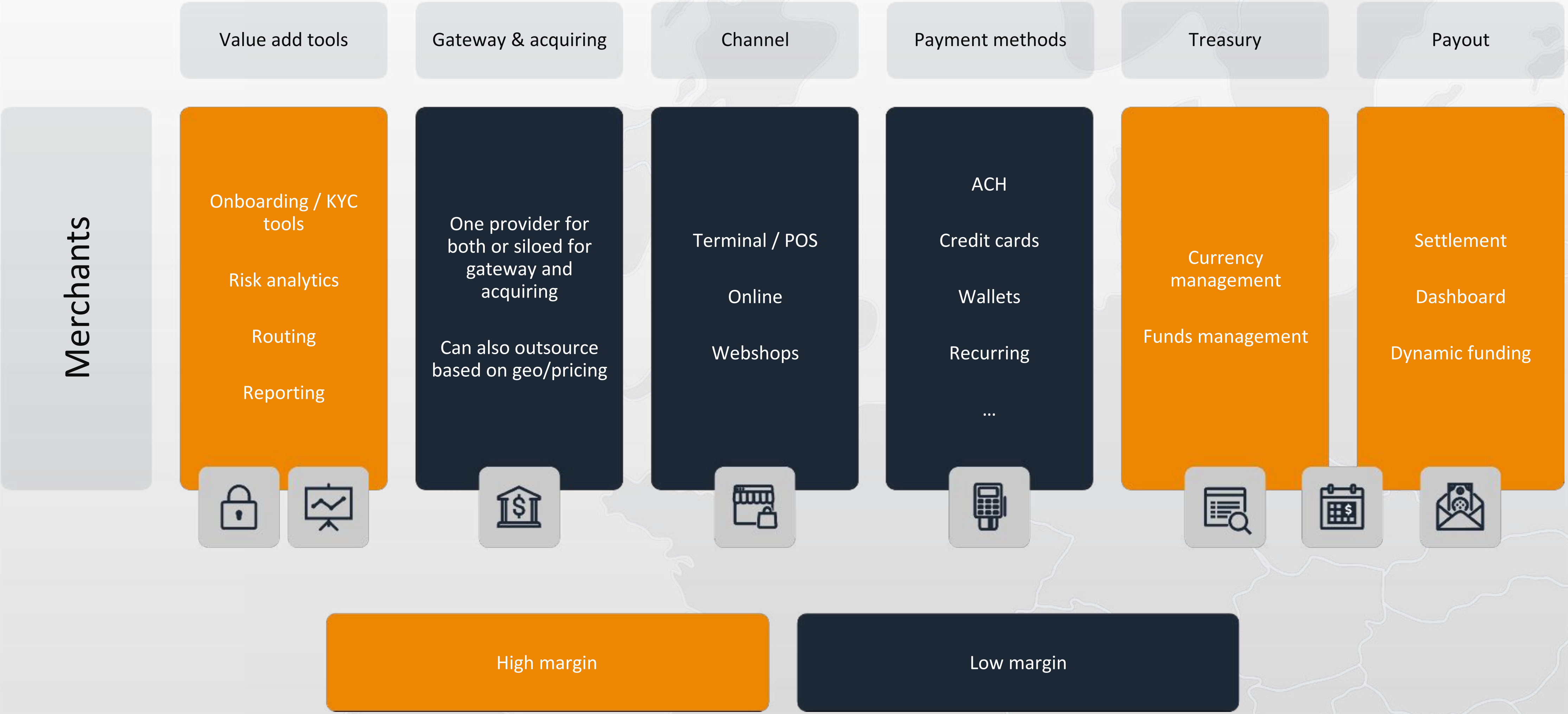
Open Banking Has Potential To Scale But Geographic Diversity In Europe Is The Biggest Challenge, Consolidation Is Required



Consolidation rationale

- The European open banking landscape is fragmented, with sub-top 5 players struggling to reach scale and healthy profit margins. With Open Banking adoption being much slower than anticipated, exit opportunities for sub-scale companies are extremely limited.
- The majority of players have 1-2 functioning use-cases, but lack the necessary customer relationships, scaling is very difficult

Increasing Questions About Where Payment Companies Should Focus To Create Value Will Trigger Further Consolidation, Especially Now That Darling Adyen's Organic Plans Are Challenged



	Value add tools	Gateway & acquiring	Channel	Payment methods	Treasury	Payout
Merchants	Onboarding / KYC tools Risk analytics Routing Reporting	One provider for both or siloed for gateway and acquiring Can also outsource based on geo/pricing	Terminal / POS Online Webshops	ACH Credit cards Wallets Recurring …	Currency management Funds management	Settlement Dashboard Dynamic funding

High margin

Low margin

Generative AI Will Reach The Insurance Industry First As Complexity Is Tackled

Analyst Estimates: Provider and Consumer Interest in Select Generative AI Applications in Insurance

over a 3-year horizon

While underwriting is unlikely to change, gen AI can boost complex product assessment

- Underwriting is so core and beloved to insurers that they have not wanted to let go off it despite progress in some products (auto, home, pet)
- Life, in particular, is such a complex product and relies on variety of data sets that are unique to individuals
- The broker channel will likely see biggest impact, with data gathering, synthesis and initial assessment to be combined, parts of the value chain will come closer to the underwriter
- Underwriting is unlikely to see a revolution but more a transformation as alternative LLM model sits by its side

Source: Insider Intelligence, 2023

Increasing Oversight Outside Finance Gives CFOs A Headache They Need To Solve

Transactional activities are the most automatable, but opportunities exist across most subfunctions.

Activities that can be automated using demonstrated technologies, %*

* Proportion of tasks. Figures may not sum to 100%, because of rounding.

The 3 areas that have been difficult to automate is where CFOs will be looking for help

Risk management

AML, fraud monitoring, cash - think SVB, vendor selection

Audit

Time sink for finance teams, tools for live auditing

External relations

ESG, Ethics, Board and investor management

Source: Mckinsey

New Breed Of ERP for S & MEs With a Finance Focus As Controlling The Procurement Has Never Been So Apparent For CFOs

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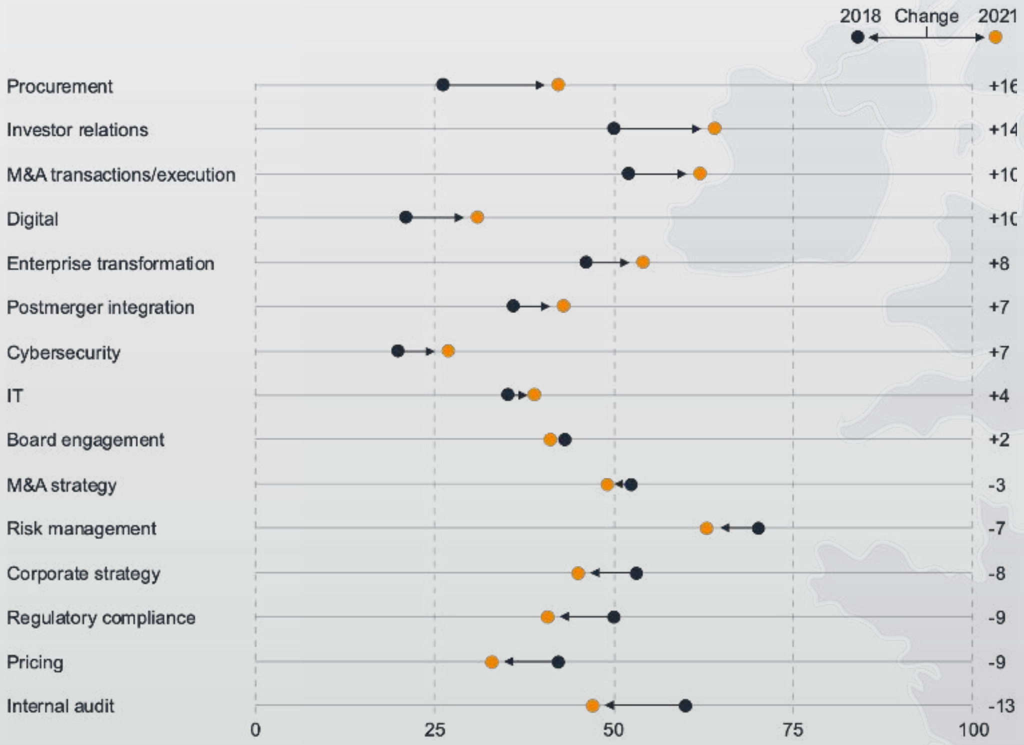
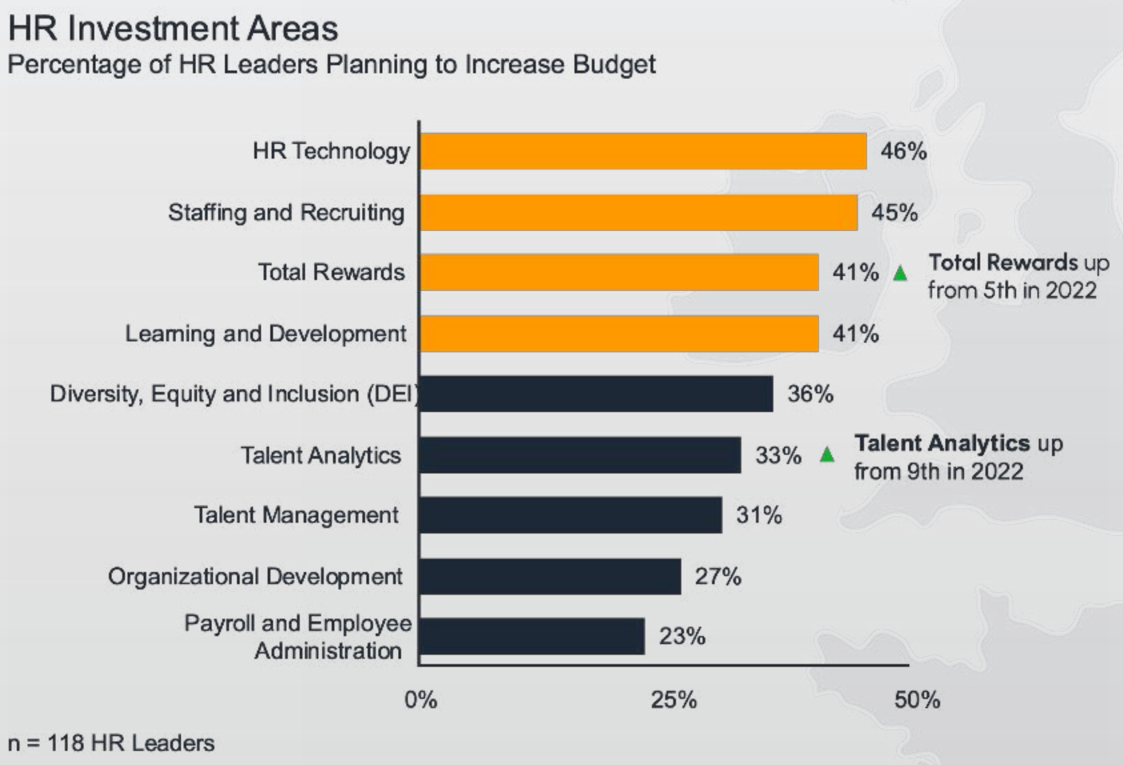
Share of roles in direct reporting relationships to CFO, %



The interconnected CFO

Source: Mckinsey

As Spend Per Employee Increases By 50%, HR Teams Get Serious About Impactful Technology Decisions



HR Investment Areas

Percentage of HR Leaders Planning to Increase Budget

Total Rewards up from 5th in 2022

Talent Analytics up from 9th in 2022

n = 118 HR Leaders

The interconnected CFO

- Manage compliance with employment laws
- Process payroll for employees
- Maintain up to date employee information
- Track time and attendance

The interconnected CFO

- Learning management
- Wellness
- Data integration

Source: Gartner

4. Summary

Summary

The year of reckoning has arrived in European FinTech. The Return of Funding discipline resulted in a Flight to Quality and Profitability to Survive for the entire ecosystem.

- Funding dropped by 70% to pre 2020 levels driven by the end of mega round and flight to quality;
- A retreat in Payments and Challenger Banks as the traditional resilient sector loses its crown to Crypto and Lending given valuation benchmarks achieved in 2022;
- US, Asian and Strategic investors are retrenching and are in 50-100% less deals than they were last year;
- M&A has remained stable with volumes on track to match 2022 levels, but deal sizes have fallen dramatically with 19% of deals above €500m vs 30% last year;
- Valuations are stabilizing in the public markets which will help private companies to get funding/exits, but at different terms than before, which will take time before all companies reset "last round" to "current" valuations

European local ecosystems have been impacted differently based on their maturity

- US investors were ranking in the top lists in major countries in 2021/H1 2022, but have disappeared this year
- UK, Germany and France saw a 70% drop in funding value BUT exits were getting done consistently
- Ireland and Netherlands are more elastic to single deals (Fourthline & NomuPay respectively) in both regions
- Poland recorded biggest drop, but the crypto infrastructure sector is gaining momentum

The trend of a shift to software and B2B FinTech continues in 2023. More than 50% of all fintech deals are B2B software versus 17% in 2016.

- Business models: Some balance sheet business are in tough spot with loan losses rising as well as those without own deposit funding. Focus on recurring software businesses with strong margins and NRR vs. product led hyper growth.
- Key areas we foresee strong momentum the next 6 to 12 months are:
    - Revisit of the payment investment landscape, with accelerated consolidation expected to boost profitability and growth
    - RegTech continues to show attractive growth in KYC and AML
    - Consolidation of Open Banking and Banking as a Service continues
    - Generative Artificial Intelligence will get at scale in Insurance and Banking
    - Automation and Digitalization of the CFO and HR function continues to increase control and efficiency

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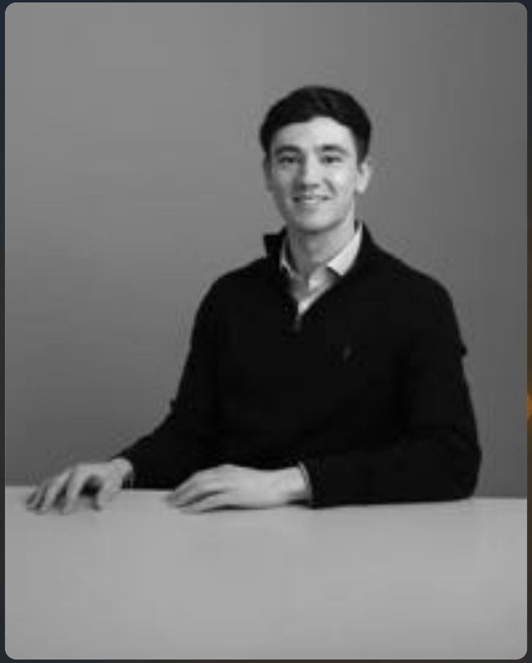

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