The wealth management puzzle:

FinTech dealmaking in Germany, Switzerland and Austria: Are banks making the most of the opportunities in a booming market?

PwC's Wealth Management Insights 2022
Deep Dive III

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1 Introduction

With global FinTech transactions reaching a second all-time-high of USD 210bn in total value in 2021 with more than 5,500 deals, we wanted to better understand the local dynamics within a key European market: Germany, Switzerland and Austria ("GSA"). For this purpose, we have analysed transaction data in the region over the last decade to gain a better understanding of historical trends and conducted a survey with 30 bank executives to hear their views on accessing the FinTech sector. We define FinTechs here as companies combining technology & financial services which transform the way traditional financial services businesses operate. Traditional financial technology firms founded before 2000 were excluded for the purpose of this study.

Our analysis shows that the FinTech industry in the GSA region has seen rapid growth. More than 50% of the total deal value in the last 10 years has been observed in the past 30 months. Not only has the deal activity increased but also the median deal size. Growth has mainly been driven by capital from financial investors. Strategic investors, however, have recently become more active. In the past 30 months, approximately one of four investors was strategic, up threefold compared to 2011. From our survey, we understand that 45% of banks interviewed in Switzerland and Liechtenstein have already invested in FinTech, while 38% intend to invest over the next two years. Surprisingly, only 55% of the banks that intend to invest in FinTech say that they have a formal FinTech strategy. The majority prefer partnerships and minority investments to larger strategic acquisitions, with a preference for European FinTech in the WeathTech or blockchain/crypto vertical. We conclude that many banks have an opportunistic investment approach: they observe developments in the Fintech sector and the initiatives of their competitors, but are hesitant to make a first bold move.

2 Key takeaways – Market

1. **Acceleration in deal activity, with 50% of total deal value observed in the last 2.5 years**

Out of the USD 23.1bn of total transaction value which has taken place in the FinTech market over the last 10.5 years, more than half has been made over the last 30 months. Major drivers include a general maturation of the FinTech market, with median deal value reaching an all-time-high of USD 6.5m in FY21 and a tailwind provided by the unicorns raising later-stage capital, accumulating USD 5.2bn in venture and private equity capital over the last 30 months.

2. **Blockchain as an emerging industry and predicted to continue to attract strategic investments in the mid to long term**

While banking and capital market transactions were dominant at the beginning of the decade, their market share has been decreasing over time, representing roughly 30% of transactions in H122 versus an average of roughly 80% between 2011 and 2015. The market share of blockchain and cryptocurrencies on the other hand has been gradually increasing, from roughly 1% in 2013 to roughly 20% in H122. Going forwards, we expect the blockchain and cryptocurrency market to continue to attract capital from strategic players since it is one of the most monitored verticals by the strategic players surveyed.

3. **Increase in median transaction deal value from USD 1.3m in 2016 to USD 6.5m in 2021**

The market has been largely driven by small amounts of venture capital being raised and some larger M&A deals between 2011 and 2015, with the median deal value oscillating between USD 2.4m and USD 0.7m. However, from 2016 to 2021 there has been an almost continuous increase in median deal value from USD 1.3m in 2016 to a decade-high of USD 6.5m in 2021, mainly driven by the maturation of certain market segments such as the banking & capital market or the investment management verticals.

4. **Between 20% and 25% of FinTech investors are strategic investors, up 2.7x in the last decade**

Strategic investors only accounted for about 8% of the investors in FinTech in 2011 but represent 22% of an average FinTech cap table fundraise in H122, which represents a roughly 270% increase over the period. While only a minority of strategic players entered the space at the beginning of the decade via small equity investment, we have seen a large increase in FinTech investment appetite from strategic players in the last five years.

Key takeaways – Survey

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All categories and size of banks are interested in Fintech investments, with larger and mid-sized banks taking the lead

Out of the 38% of players interested in investing in the next 24 months, all categories of banks are represented, including private, cantonal, and retail banks. Mid-size and large banks however have a larger appetite and represent two-thirds of the banks looking to invest. Those banks have also more experience than smaller banks, having concluded 2.6 FinTech deals in the past versus 1.5 deals for small banks. Banks which are currently not interested in FinTech investments are either waiting for the market to mature further or prefer to build in-house solutions.

6

Banks interested in FinTech investments are lacking a clear strategy and internal know-how

45% of players interviewed either have an undocumented informal strategy or no strategy at all, which is three times higher than their global peers according to PwC’s latest global FinTech report. We conclude that many banks in Switzerland have an opportunistic approach to FinTech, and while being interested in the topic they do not have a clearly defined approach, strategy or internal know-how. We see possibilities for improvement regarding preparing these players for upcoming opportunities.

7

Minority investment in a European-based revenue-generating WealthTech or blockchain company as a preferred target to either acquire technology or develop a new business model

The majority of banks interviewed prefer either making a minority investment or a non-equity partnership within a European start-up in order to access FinTech capabilities. We believe that this demonstrates the nascent and exploratory stage of strategic players’ approach to the space. Those investors want to grow within the WealthTech and the blockchain vertical, which goes in line with the private banking history of the region and a developed/ mapped regulatory framework for digital asset companies. The major rationales for a FinTech investment are the acquisition of technologies and the possibility of entering a new market/ new business model.

8

FinTech’s as a means to enhancing the product offering and/or improving distribution channels

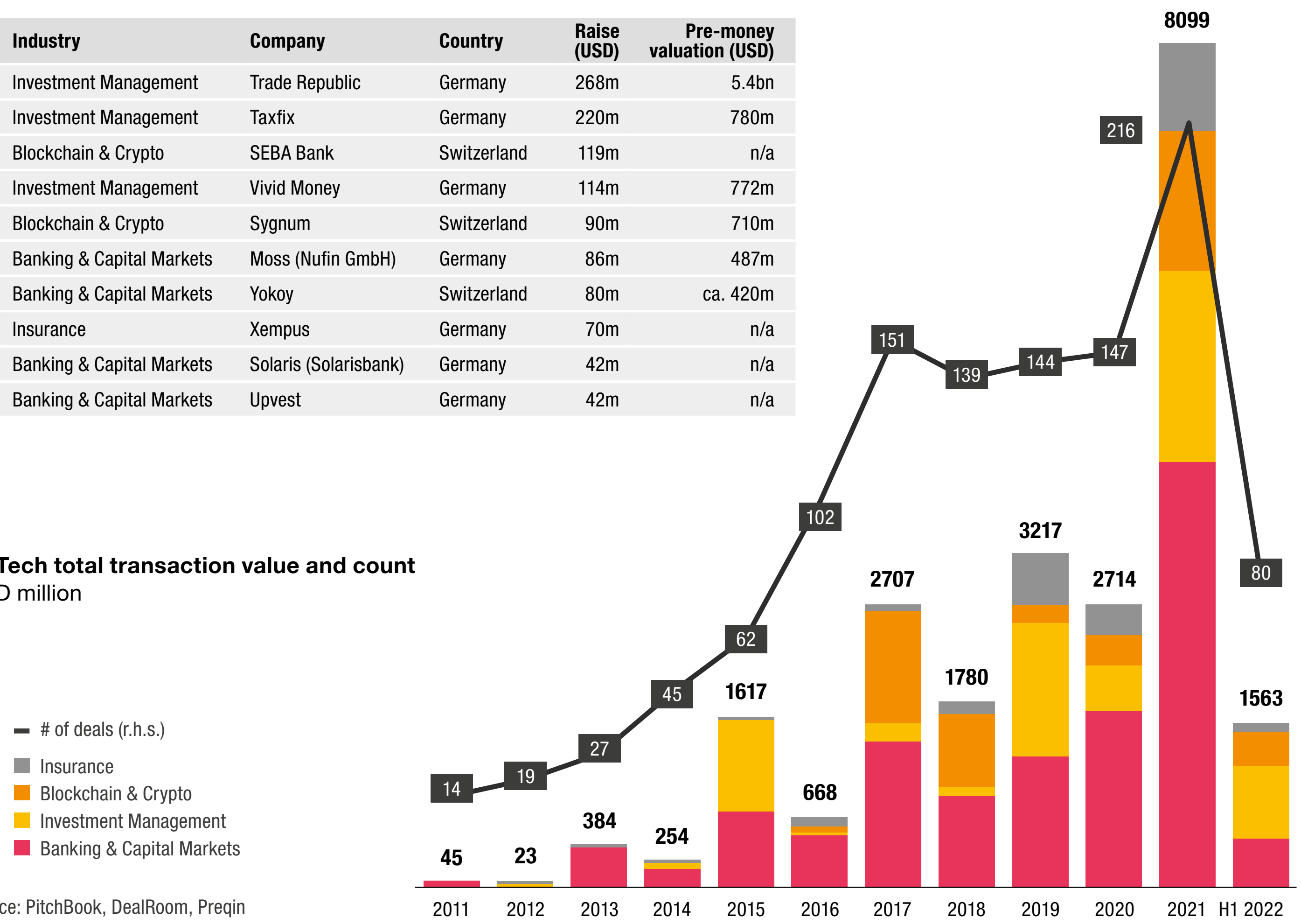
Most banks want to improve their middle or front office areas, leveraging digital distribution and/or distributed ledger technology. Strategic players therefore see FinTech investments as an opportunity to improve their product offering or develop/change the way they distribute products to clients.

3 | Market – FinTech transactions increasing over time as an indicator of market maturation also demonstrated by an increasing appetite from strategic players

Top 10 deals in H122

Date	Industry	Company	Country	Raise (USD)	Pre-money valuation (USD)
June22	Investment Management	Trade Republic	Germany	268m	5.4bn
April22	Investment Management	Taxfix	Germany	220m	780m
January22	Blockchain & Crypto	SEBA Bank	Switzerland	119m	n/a
February22	Investment Management	Vivid Money	Germany	114m	772m
January22	Blockchain & Crypto	Sygnum	Switzerland	90m	710m
January22	Banking & Capital Markets	Moss (Nufin GmbH)	Germany	86m	487m
March22	Banking & Capital Markets	Yokoy	Switzerland	80m	ca. 420m
March22	Insurance	Xempus	Germany	70m	n/a
June22	Banking & Capital Markets	Solaris (Solarisbank)	Germany	42m	n/a
June22	Banking & Capital Markets	Upvest	Germany	42m	n/a

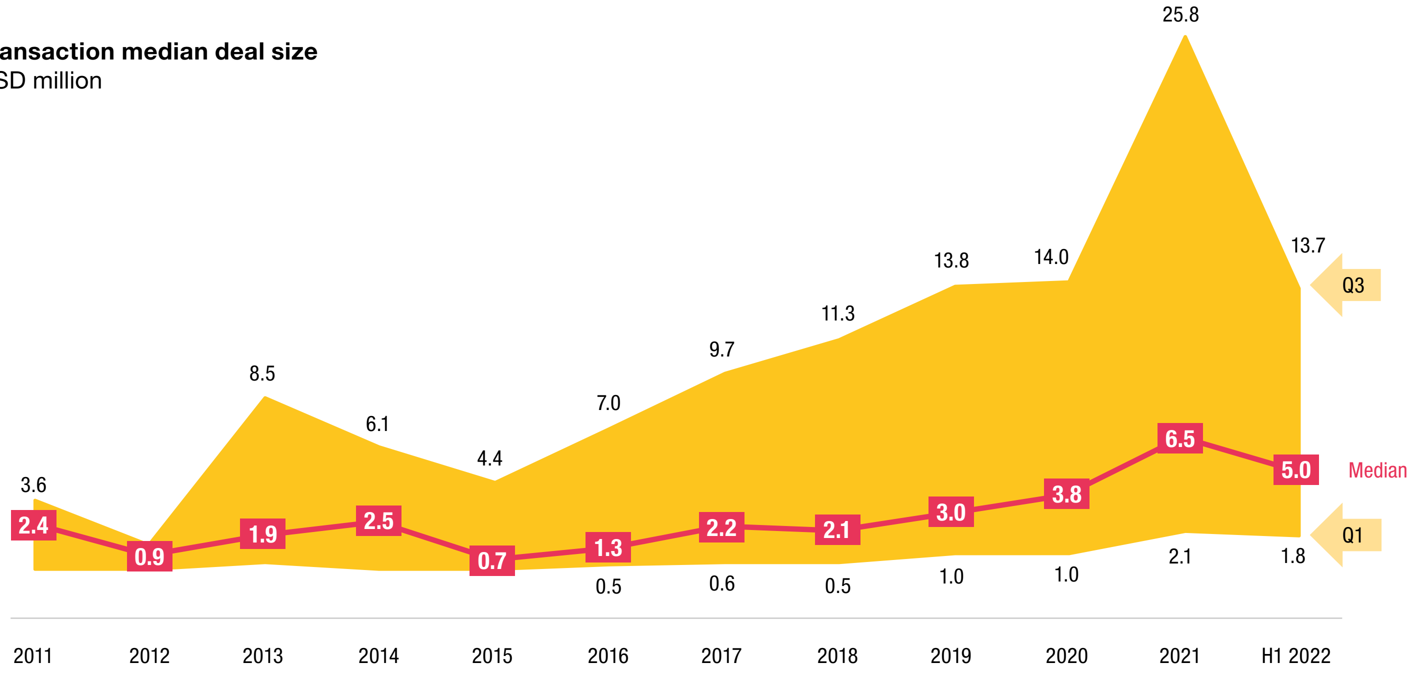
FinTech total transaction value and count
USD million



Source: PitchBook, DealRoom, Preqin

In the first half of the decade FinTech within the region was still in its nascent phase, as is demonstrated by a low median deal value of roughly USD 2m during the period and a relatively low volume of deals (< 170 in 5 years). While most deals in the period were capital increases, the industry has seen an uptick in deal volume driven by USD 100m M&A deals during the same period. The Banking & Capital Markets vertical is the one which has seen the most acquisitions by volume, such as the acquisition of the German buy-now-pay-later platform Sofort by Klarna in 2013 for USD 150m. Other large deals include the acquisition of Pay.on by ACI Worldwide in 2015 for roughly USD 200m or the bold-on acquisition in the investment management industry of 360 Treasury Systems by Deutsche Börse Group in the same year for roughly USD 800m.

Transaction median deal size
USD million

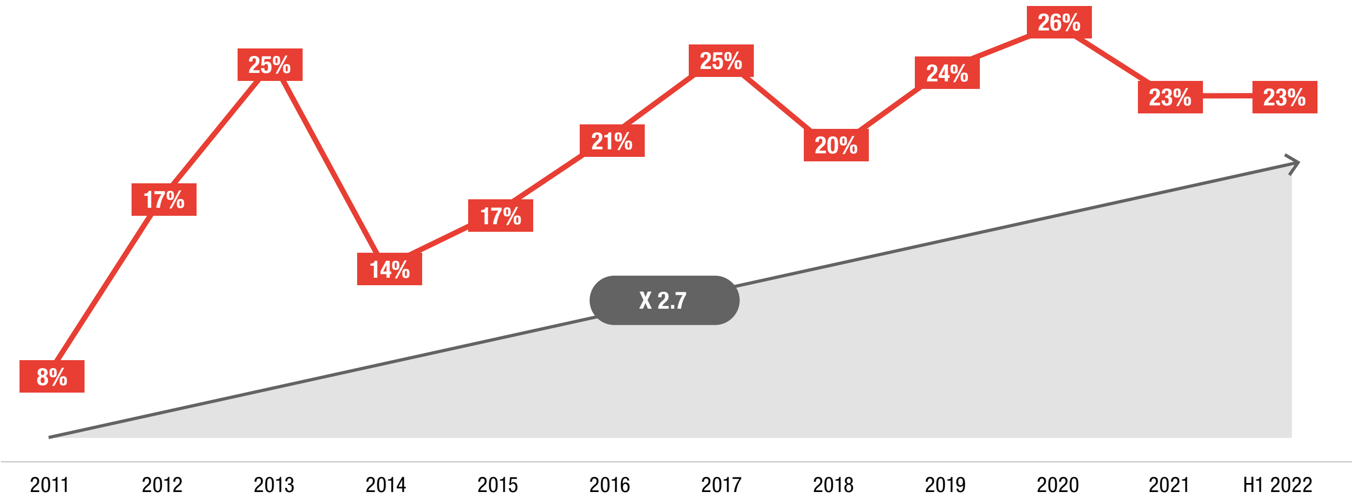


Source: PitchBook, DealRoom, Preqin

Deal values have thereafter seen a slight dip in transaction volume, with 2016 being an extremely low year with no outliers, and only Bitpanda's USD 50m and N26's USD 40m fundraising attracting relatively large capital (e.g. > USD 40m). This is mainly driven by an exceptional deployment of dry power in the previous year but also macroeconomics and geopolitical uncertainties in Europe during the period. The FinTech industry has thereafter seen an upward trend in transactions for the rest of the decade, with median deal value increasing fivefold from USD 1.3m in 2016 to USD 6.5m in 2021. From 2017 to 2021, the growth in the industry has been driven by the emergence of the blockchain and cryptocurrency vertical, with companies growing in the space with large venture capital rounds such as Polkadot's USD 250m fundraise led by Fabric Venture in 2017 or Dfinity's USD 102m fundraise led by Andreeseen Horowitz in 2018. Other growth drivers include the emergence of FinTech unicorns in the region, with a large fundraise between 2019 and H122. Examples include the German-based first FinTech unicorn N26 with its USD 300m fundraise in January 2019 at a USD 2.7bn valuation, WeFox's USD 235m fundraise in March/December 2019 at a USD 1.6bn valuation or Austria's first unicorn Bitpanda's USD 170m fundraise at a USD 1.7bn valuation in March 2021.

> **"The FinTech industry has seen an upward trend in transactions."**

Average strategic investors as percentage of total per round



Source: PitchBook, DealRoom, Preqin

Over the last 30 months the deal value of FinTech transactions has accelerated, with 2019 to H122 transaction volume representing 50% of total transaction volume over the last 10.5 years. Major drivers include the maturation of the overall FinTech market with a general increase in later-stages venture capital round, demonstrated by a median deal size reaching an all-time-high of USD 6.5m in 2021. Other drivers include the tailwinds provided by the mega-rounds from the GSA-based unicorns, raising a combined USD 5.2bn over the last 30 months, representing 42% of transaction value over the same period.

The deal data shows a gradual increase in investment from strategic investors into FinTech over the last decade. In H122 22% of FinTech investors are strategic investors, up 2.7x compared to 2011. The beginning of the decade was characterised by small investments from some first-mover strategic players, such as Credit Suisse's investment into Lotaris' USD 9.5m round in 2011 or Berliner Volksbank's investment in Bergfürst's USD 10m round in 2013. Thereafter, the number of investments from strategic players increased, combined with bolder investments and acquisitions such as Aegon's USD 170m investment in Auxmoney in 2015 or the roughly USD 330m acquisition of Finanzcheck.de by AutoScout24 in 2018.

4 Survey – Strategic investors have an appetite for FinTech but lack a clear strategy

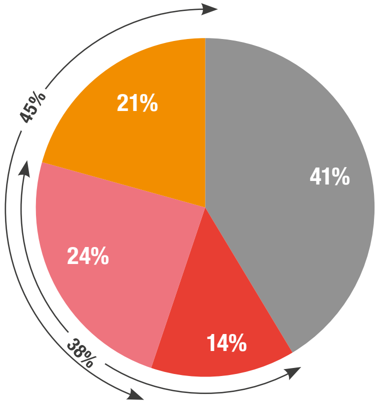
Appetite for FinTech investments in the Swiss and Liechtenstein banking landscape

45% of banks interviewed have already made FinTech investments in the past. Large and medium-sized banks (total assets > CHF 10bn) were more active: the majority in this group have already invested in FinTech and concluded 2.6 deals on average. Of the smaller banks, only 33% have invested in FinTech with 1.5 deals on average.

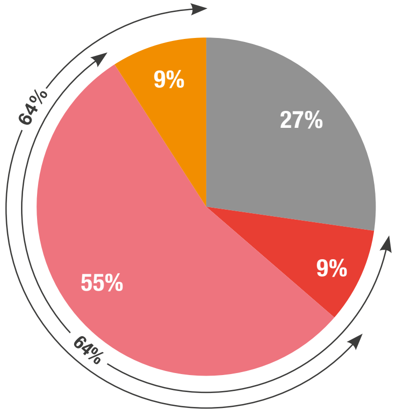
38% of banks interviewed plan to invest in FinTech in the next two years. The group is again dominated by large and medium-sized banks, of which the majority intend to invest. Of the smaller banks, only 22% have an appetite for FinTech investments. All sorts of banks have an interest in FinTech, i.e. retail banks, private banks, cantonal banks as well as dedicated online and digital asset banks.

Approx. two-thirds of banks are not looking for FinTech investments in the near term. Most banks that do not intend to invest explain that they are waiting for the market to mature further or that they are building in-house.

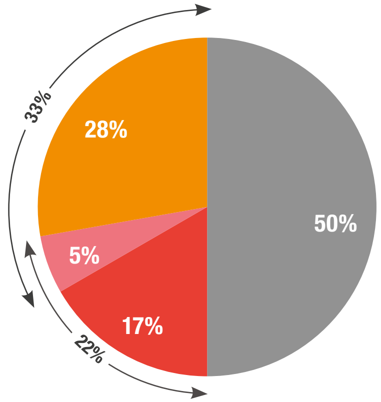
Appetite for FinTech investments
All banks



Appetite for FinTech investments
Medium & large banks



Appetite for FinTech investments
Small banks



- Non invested in past and not willing to invest
- Invested in past and willing to invest
- Non invested in past and willing to invest
- Invested in past and not willing to invest

Avg. # of FinTech investments

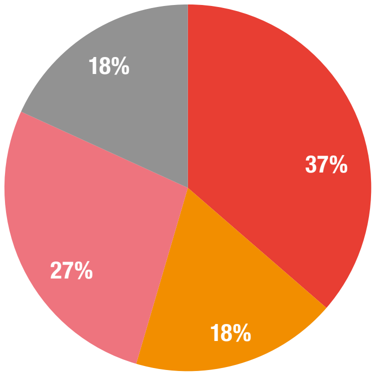
Incorporation of FinTech in banks' strategy leaves room for improvement

Not all banks that intend to invest in FinTech have a formal, documented FinTech strategy. 45% answered that they either have an undocumented informal strategy or no strategy at all. From these answers we conclude that many banks in Switzerland have an opportunistic approach to FinTech. They are generally interested in FinTech opportunities but do not have a clearly defined approach or strategy. We see room for improvement in terms of being well prepared for upcoming opportunities. 55% of banks answered that they have a formal FinTech strategy. These banks are either dedicated niche players (e.g. focus on crypto) or medium to large institutes publicly announcing their FinTech affinity and capabilities on their websites. On a global level, 84% of FS companies declared having a formal strategy according to our latest PwC Global FinTech report. They seem to be more advanced and determined regarding Fintech investments.

Minority investments and partnerships as preferred approach to access FinTech

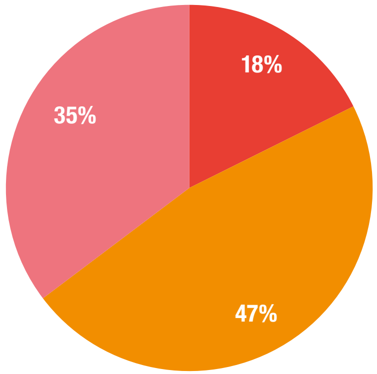
The results of our survey show that most of the banks interviewed would like to access FinTech via equity investment (minority stake) or non-equity partnerships. Only 20% answered that they would like to do a strategic acquisition (majority stake). None of the participants would like to integrate FinTech via indirect investments (via a VC fund) or through accelerator/incubator programs. From the high preference for equity investments and partnerships, we conclude that many banks have an exploratory approach to FinTech. They prefer to engage with or acquire minorities in several FinTech companies and see how they develop rather than making larger strategic acquisitions. Only dedicated niche players and some of the larger banks prefer to make strategic acquisitions in the FinTech space.

Incorporation of FinTech in banks' strategy



- FinTech is fully embedded across our strategic operating model
- We have a formal, documented FinTech strategy but it is not fully embedded across our strategic operating model
- We have an informal strategy, that we have discussed internally but not documented
- Not formal strategy

Preferred approach to access FinTech

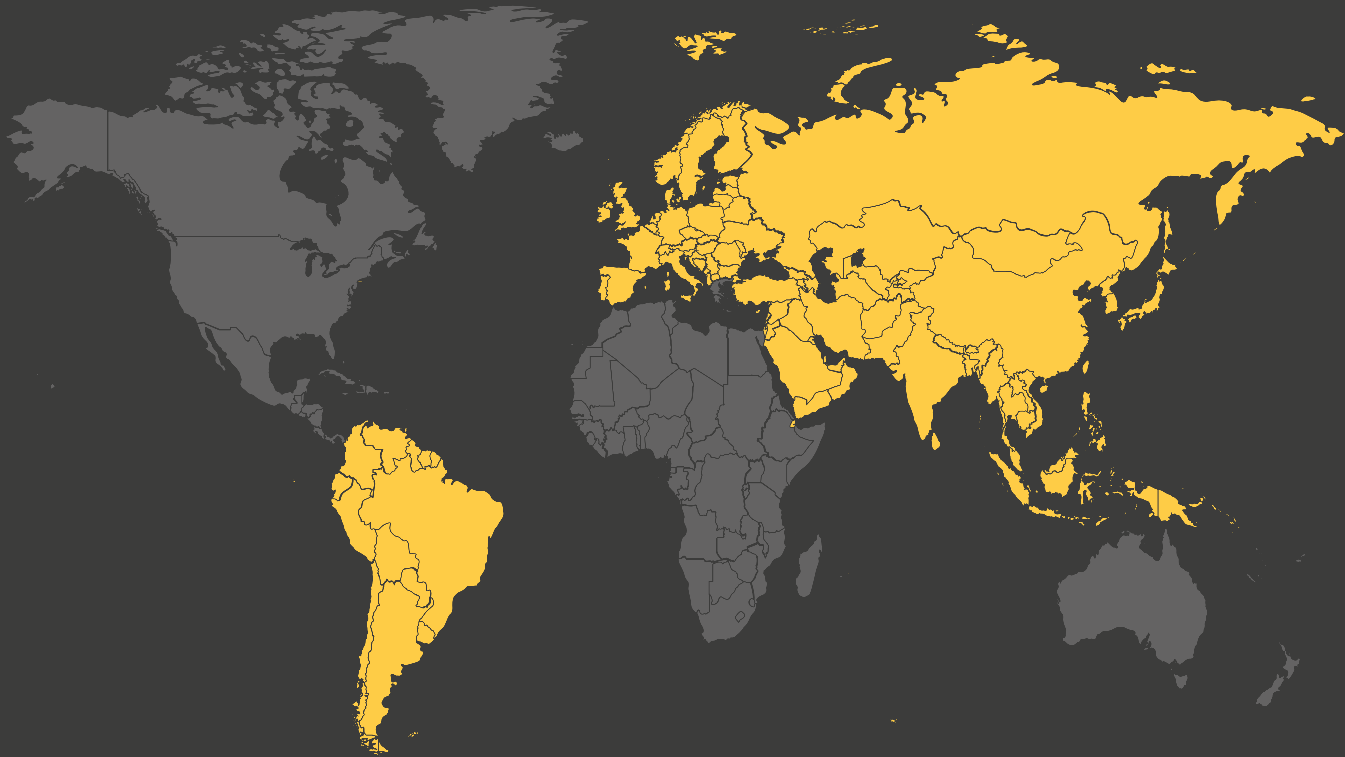


- Strategic acquisition (majority)
- Equity investment (minority)
- Partnerships (non-equity)

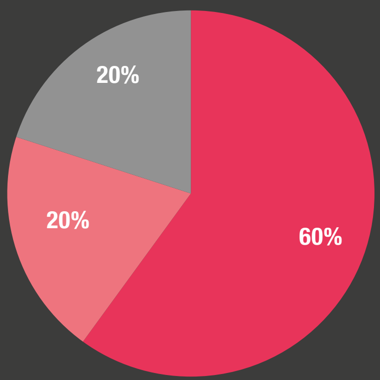
Preference for revenue-generating FinTechs based in Europe

Most banks prefer to invest in revenue-generating FinTech companies with functioning business models. Only 20% consider investing in early-stage start-ups. This is in line with what we see in FinTech deal data, where early financing rounds are heavily driven by financial investors such as VC firms. We do not see many strategic investors such as banks engaging in early-stage rounds.

Most banks are looking for FinTech opportunities in Europe. Some private banks are considering opportunities in South America or Asia. None of the banks interviewed is considering investing in FinTechs located in the U.S.

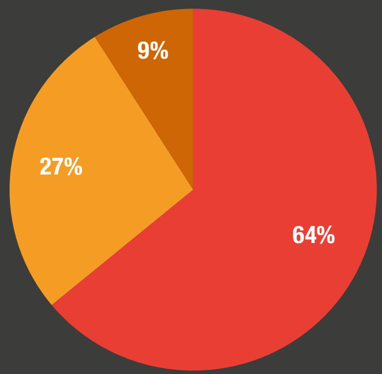


Investment stage to access FinTech



- Growth (revenue generating)
- Mature (profit making)
- Early Stage (pre-revenue)

Geographical preference



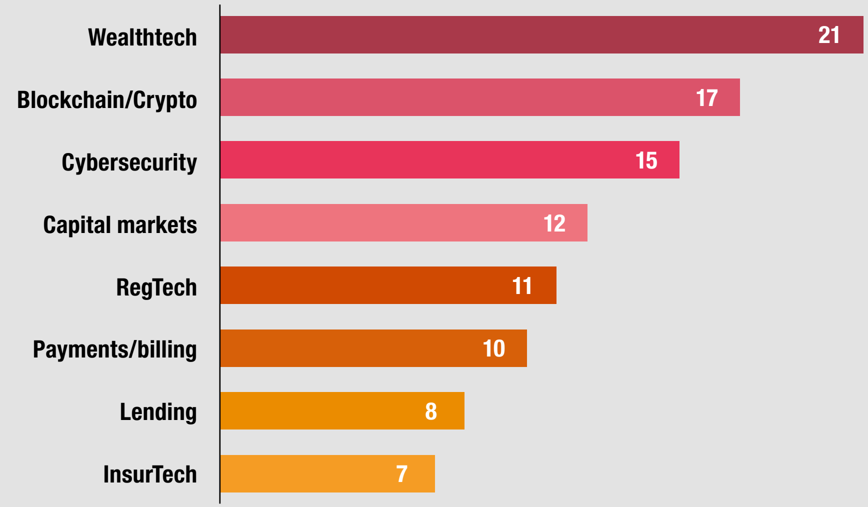
- Europe
- Europe and/or Latam
- Europe and/or Asia

WealthTech and blockchain/crypto are the most attractive FinTech verticals for banks in Switzerland and Liechtenstein

According to most banks, WealthTech and blockchain/crypto are the most attractive FinTech verticals to invest in. Both verticals are capital-light and promise high margins. Furthermore, Switzerland and Liechtenstein are private banking hubs and a location of choice for crypto companies. Expanding in these two verticals seems an obvious choice for Switzerland and Liechtenstein-based banks.

The least-interesting verticals are Insurtech, lending and payments/billing. From the perspective of banks, the low relevance of Insurtech is evident. In the lending market, banks already have a very high presence and/or access to lending platforms without making an investment. The payments/billing space is competitive and highly specialised, and does not offer much overlap with most banking business models.

Attractiveness of FinTech verticals
in percent / as percentage

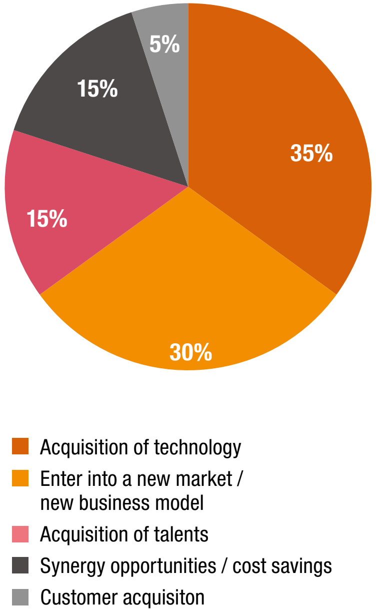


Banks aim to enhance product offerings and improve distribution channels through FinTech

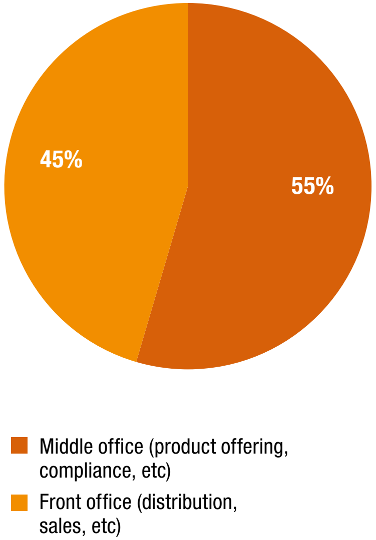
Through FinTech investments, banks primarily want to gain access to new technology or enter a new market/business model. Less relevant reasons include the acquisition of talent, cost savings or access to new customers. If we look at the areas within the organisation which banks want to improve through FinTech, most banks point to middle office (55%) followed by front office (45%). None of the banks interviewed aims to improve back-office functions through FinTech.

This corresponds to the capabilities that banks would like to develop with the help of FinTech investments. The number one priority is digital distribution, followed by building blockchain & cryptocurrency capabilities. We conclude that banks mainly see FinTech investments as an opportunity to enhance their product offering or change the way that they distribute their products. Capabilities such as data analytics or process automation have lower relevance. We assume that banks prefer to access these capabilities through outsourcing solutions rather than acquisitions/partnerships.

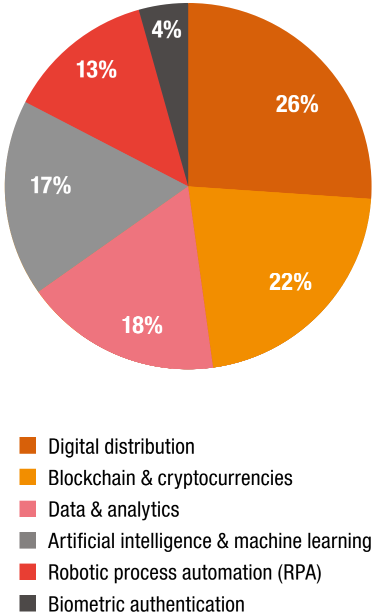
Rationale to invest in FinTech



Areas to develop through FinTech



Capabilities to develop through FinTech



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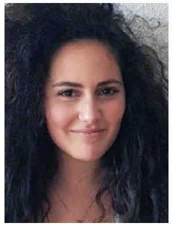

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