Addressing top of mind fintech issues

Q3 2024

Content

Business/Strategy trends

A core component of the fintech business model has always been establishing and nurturing business partnerships that allow fintechs to broaden their customer base while legacy businesses benefit from improved customer experience. Recent events have increased the spotlight on some of the challenges that come with managing a successful business partnership between fintechs and legacy business.

More recently, regulators have heightened their focus on how legacy financial services companies are appropriately managing the risk associated with fintech partners. This is likely to increase the demand for transparency from partners

To help address some of these issues in Q2 2024, the Federal Reserve (the fed) released a guide for community banks performing due diligence on prospective relationships with fintech companies.

The document provides considerations and resources for banks with respect to planning, due diligence, third-party selection, contract negotiation, ongoing monitoring, and termination. Fintech companies that provide services to community banks may benefit from familiarizing themselves with the guidance.

Overall, fintechs should continue to work closely with partners to ensure that values and priorities are aligned and that performance metrics are clearly defined at the outset of the relationship. Additionally partners should confirm that their risk and technology capabilities are compatible to ensure a successful relationship.

Thought leadership:

- Federal Reserve Guide - Third-Party Risk Management
- KPMG - Third Party, Nth Parties, Intermediaries & Service Providers

For more information around business and strategy trends, contact **Erich Braun**, National Fintech Audit Leader.

Mergers and acquisitions/ transactions

So far, 2024 has seen an uptick in the number of fintech deals completed in the US compared to the same period in 2023. Despite this, the overall dollar value of these investments is down, indicating that higher interest rates, geopolitical uncertainty, and lingering valuation challenges continue to subdue the appetite for the largest deals.

Among the largest deals in 2024 were the $12.5 billion acquisition of WorldPay by private equity firm GTCR and the $4 billion buyout of B2B customer engagement platform by Vista Equity Partners.

We have seen a shift in 2024 from divestments of noncore fintech platforms by larger companies to targeted/strategic investments by those looking to enhance their product offerings or increase the reach of their existing business.

There continues to be heightened interest in Business-to-Business (B2B) payment solutions, where there appears to be continued opportunities to modernize the payments process. Buy Now Pay Later (BNPL) and crypto payments solutions will continue to see increased demand growth, but also heighted regulatory scrutiny and increases in BNPL losses. Business models that best mitigate the credit and regulatory risks should be in a good position for continued growth.

Thought leadership:

- Pulse of fintech

For more information around M&A, contact **James Brannan**, Due Diligence Advisory Partner.

Auditing and accounting

Since the rise of large language models and other generative artificial intelligence (AI) in 2022, those in financial reporting have been focused on the opportunity to leverage the technology to transform the finance function.

In Fintech, as in other industries, AI is transforming business, including financial reporting and auditing. Instead of relying on time-consuming manual processes and statistical sampling, companies are able to automate data gathering and entry from a huge variety of sources.

As with any technological adoption, there are significant barriers to overcome and companies have reported concerns around data security and privacy, limited AI skills within the finance function and difficulty integrating tools with existing processes and tools.

Unsurprisingly, as AI is integrated into financial reporting processes, our clients are increasingly expecting their auditors to evaluate their use of the technology. This is already an area of focus for auditors performing risk assessment and process understanding procedures. Additionally, auditors are beginning to integrate AI into their processes to improve data analysis, fraud detection, and predictive analysis.

Thought leadership:

- AI in financial reporting

For more information around auditing and accounting, contact **Stephanie Petruzzi**, Accounting Advisory Services Partner, or **Sania Mushir**, Accounting Advisory Services Director.

Regulatory and compliance

A common theme in 2024 remains the increase impact that regulation and regulatory agencies are having on the fintech business model.

The Consumer Finance Protection Bureau (CFPB), the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve System (the Fed) and the Office of the Comptroller of the Currency (OCC) have all issued guidance in the past year that either directly or indirectly impacts fintechs.

In particular, the CFPB has issued statements targeted at lending practices in both the BNPL and Solar Lending indicating the need for fintechs and other non-bank lenders to meet their expectations that financing is fair, transparent and competitive. More recently, the FDIC has announced a proposal to enhance record keeping for deposits raised through fintechs and other third parties.

Overall, the pace and nature of regulation for fintechs is a clear sign that the industry is maturing and the increased stability and credibility that comes from regulatory oversight can be a strength for fintechs looking to compete with legacy businesses especially those looking to attract millennials and Gen Zs.

Viewed through another lens, increased regulation is a sign that fintech is maturing. If you're an established fintech, then oversight can be a good move. It defines a level playing field for everyone and helps keep out the troublemakers.

Thought leadership:

- KPMG – the bright side of fintech regulation
- KPMG CFPB BNPL
- Bank-Third Party: Custodial Deposit Account Recordkeeping Proposal

For more information around regulatory and compliance, contact **Chad Polen**, Financial Services Risk, Regulatory, and Compliance.

Fintech – A leader in your industry

Leading Fintech firms rely on KPMG to help them improve business performance, turn risk and compliance into opportunities, develop strategies, and enhance value. The KPMG Fintech team sees today's environment of converging challenges as a catalyst for improvement by taking advantage of the opportunities that surround us.

Our mission is to help our clients grow, engage with customers, manage costs, and comply with regulations by leveraging the power of data and digitization.

By integrating our capabilities across audit, tax, and advisory, KPMG Fintech professionals bring insight to help our clients build competitive advantage and align strategies during this period of substantive change and enormous opportunity.

At KPMG we help our clients succeed with strategic approach to their FinTech challenges across the following FinTech categories:

Digital assets

Entities whose core business is predicated on distributed ledger (blockchain) technology with the financial services industry AND/OR are involved in providing services or developing technology related to the exchange of cryptocurrency, the storage of cryptocurrency, the facilitation of payments using cryptocurrency and securing cryptocurrency ledgers via mining activities.

Digital wealth

These companies or platforms whose primary business involves the offering of wealth management services using technology to increase efficiency, lower fees or provide differentiated offerings compared to the traditional business model.

Payments

Entities whose business model revolves around using technology to provide the transfer of value as a service including both B2B and B2C.

Digital lending

- **Platform companies**: Any non-bank who uses a technology platform to facilitate movement of funds often implementing alternative data and analytics OR any entity whose primary business involves providing data and analytics to online lenders or investors in online loans.
- **Neobanks:** Type of direct bank or a digital banking platform that operates exclusively online without traditional physical branch networks.
- **Challenger banks:** Small, recently created retail banks with a banking license that compete directly with the longer-established banks

PropTech, RegTech, and InsurTech

- **PropTech:** Entities that are developing and leveraging technology intended to help facilitate the purchase, management, maintenance and investment into both residential and commercial real estate.
- **RegTech**: Entities that provide a technology-driven service to facilitate and streamline compliance with regulations and reporting as well as protect from employee and customer fraud.
- **Insurtech:** Entities utilizing technology to increase the speed, efficiency, accuracy and convenience of processes across the insurance value chain.

Contact us

Erich Braun
Audit Fintech Partner
415-963-7273
etbraun@kpmg.com

Stephanie Petruzzi
Accounting Advisory
Fintech Partner
703-286-6916
spetruzzi@kpmg.com

James Brannan
Advisory M&A Principal
212-954-1987
jamesbrannan@kpmg.com

Scott Harper
Tax Fintech Principal
312-665-4511
sharper@kpmg.com

Contributors

Nate Gabig
Principal Advisory,
Securitizations Lending
ngabig@kpmg.com

Allan Perraud
Audit Managing Director
lperraud@kpmg.com

Robert Ruark
Principal Advisory, Financial Services
Strategy and Fintech Leader
rruark@kpmg.com

Chris Boyles
Partner, Advisory,
Accounting Advisory Services
cboyles@kpmg.com

Robert Sledge
Partner Audit,
Digital Assets
rsledge@kpmg.com

Christine Chan
Advisory Managing Director,
C&O Financial Services
christinechan@kpmg.com

Theo Fielder
Audit, Managing Director
theofielder@kpmg.com

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