Europe Banks

Fintech 2.0: Latest funding dynamics and bank digital transformation efforts

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Fintech funding levels have remained subdued as 2024 stands out as the lowest year of global fintech fundraising since 2018; funding fell c.5% y/y to $54bn, down 72% on a 3-year view vs. the peak activity levels seen in 2021 ($191bn). Among major geographies, the decline vs. peak funding levels seen in 2021 was broad based across China, Europe and the US, with China fundraising down to just $16mn in 2024 (vs. $3.9bn in 2021), and US and Europe declining by ~70%. While in 2022, the contraction in availability of capital to private fintech companies was mirrored by a reset in public market valuations, more recently, in 2024, we have seen a recovery in public market valuations (.KFTX up c.+35% y/y in 2024), which in our view could be a positive lead indicator to potential funding activity.

We note that even though private fintech companies are facing a difficult fundraising landscape, incumbent banks are advantaged by virtue of sustained organic capital generation and strong capital positions, which in turn supports their ability to self-fund neobank build-outs and invest in digital transformation capabilities. In addition to the ongoing development of in-house neobanks, European banks continue to enter partnerships and make selective investments in order to support their digital transformation efforts. From enhancing existing capabilities to offering new and improved functionalities, these smaller tech-focused partners enable banks to improve their operational efficiency metrics, complementing their in-house platforms and products.

From a regulatory standpoint, the ECB Banking Supervisors, as part of their latest 2024 Supervisory Review and Evaluation Process (SREP), highlight that they continue to assess banks' progress in digitalisation and track how they identify and mitigate any related risks. Furthermore, as a part of their medium-term strategy, they have set three priorities for 2025-27, and one of these is for banks to remain focused on strengthening their digitalisation strategies and tackle any emerging challenges stemming from the use of new technologies.

Overall, these latest dynamics reinforce our view that a confluence of cyclical and structural factors is driving a step change in competitive dynamics and corporate strategy — towards a Fintech 2.0 landscape for European Financials (see: European

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Banks - Adjusting to Fintech 2.0, September 2022). Banks now operate with large capital buffers, generating significant organic capital which enables them to play a much more active role in the evolution of the Fintech industry in Europe through a variety of channels including their own build-outs.

2024 fintech funding dynamics

Fintech funding levels remain subdued in 2024 as well...

2022 was a reset year for fintech funding as we saw a decline in the availability of equity and debt capital to private fintech companies. This dynamic continued into 2023 and was even more pronounced in 2024, which stands out as the lowest year of global fintech fundraising since 2018. **Fintech funding in 2024 fell 5% y/y to c.$54bn, down 72% on a 3-year view vs. peak activity levels seen in 2021 ($191bn),** Exhibit 1. However, if we exclude the $6.5bn Stripe deal in the payments space (which contributed 36% of the total fundraising in Q1 2023), the funding levels in 2024 were actually up c.7% y/y vs. 2023.

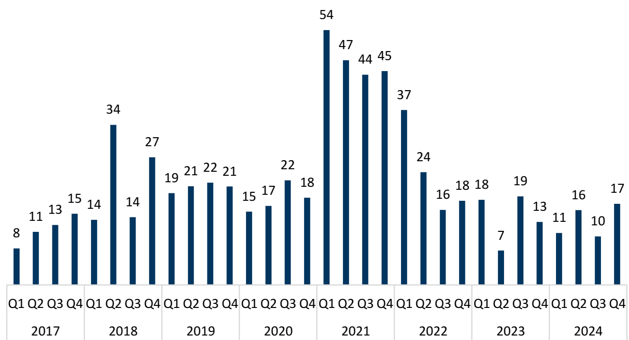
Among major geographies, the decline vs. peak funding levels seen in 2021 was broad based across China, Europe and the US, with China fundraising down to just $16mn in 2024 (vs. $3.9bn in 2021), and US and Europe declining by ~70%. Moreover, Europe has seen a decrease in its global market share to c.20% of global fintech funding in 2024, vs. 2023 levels of c.30% (Exhibit 3). In terms of deal size, large deals continued to decline for the third year in a row, with deals >$100mn down 27% y/y (Exhibit 4) while sub-$100mn deals saw a +50% improvement vs. 2023 to reach $24.3bn. As a result, larger deals have lost their share as a % of total after witnessing a decline in 2024 (55% in 2024 vs. 72% in 2023, Exhibit 5), albeit still accounting for >50% of annual deal activity.

...with public market valuations starting to see a recovery since the start of 2024

In 2022, the slowdown in fintech funding was mirrored by a reset in public market valuations — with a 51% reduction y/y in total fintech funding compared to a 53% peak-to-trough move in the Nasdaq Fintech Index (.KFTX) in 2022. This trend continued in 2023 as well, with muted fintech funding levels vs. history and no material recovery in valuations. Recently, however, public market valuations have been rising since the start of 2024, with .KFTX staging a clear recovery, up c.35% in 2024 and c.70% to date vs late October 2023 trough levels, albeit with some fluctuations ytd (Exhibit 7).

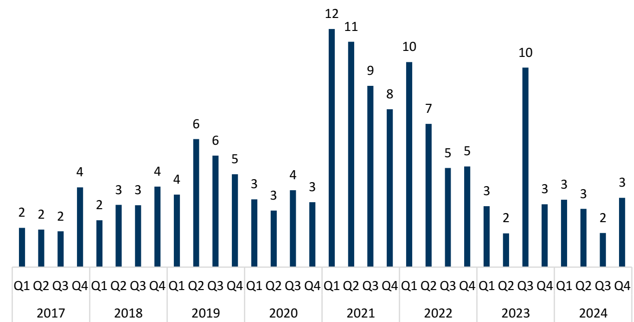
We view these improved public market valuations as a positive lead indicator for potential funding activity, which looks set to see some improvement starting this year (similar to how 2020-21 recorded a two-three quarter lag between valuations picking up and funding levels rising), particularly as this coincides with the expectation of a broader reopening and increase in activity levels across debt and equity capital markets. However, it is clear that funding activity levels have yet to show any signs of a nascent recovery, while at the same time incumbent banks are pressing ahead with their own Fintech investment strategies (funded by organic capital generation and excess capital buffers).

Exhibit 1: 2024 saw the lowest level of global fintech fundraising since 2018...
Global Fintech fundraising per quarter ($bn)



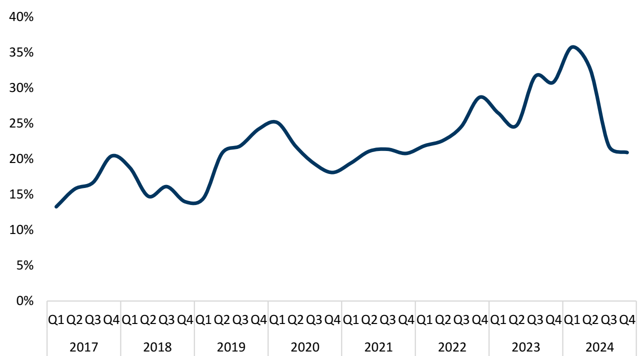
Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2: ...with European fundraising in particular down c.70% vs. peak levels in 2021...
European Fintech fundraising per quarter ($bn)



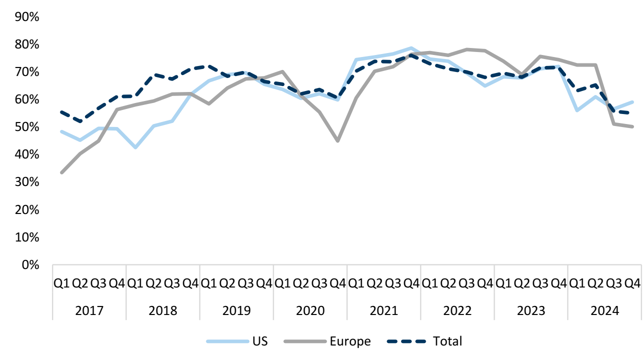
Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research

Exhibit 3: ...and accounting for c.20% of total global funding
European fintech deals as % of total



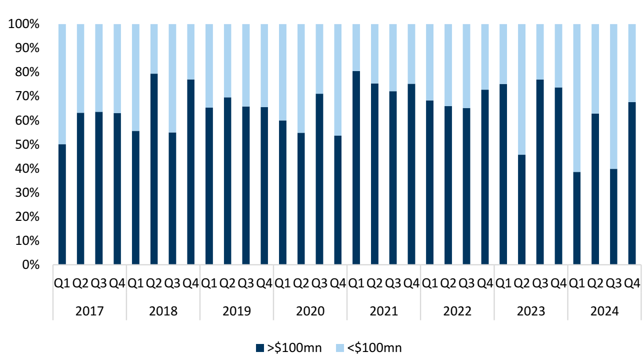
Source: CB Insights, Goldman Sachs Global Investment Research

Exhibit 4: Larger deal activity slowed across US, Europe and China, and lost share as a % of total fundraising...
Fintech deals >$100mn as % of total



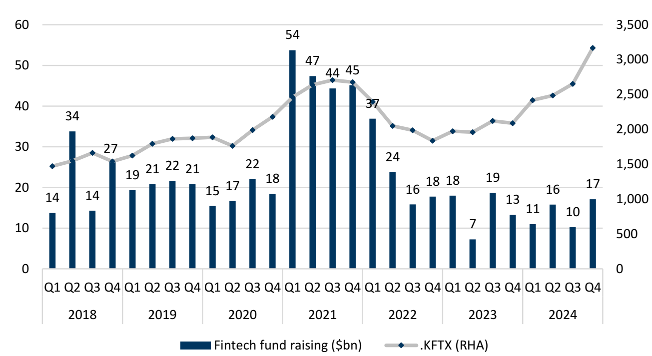
Source: CB Insights, Goldman Sachs Global Investment Research

Exhibit 5: ...albeit still accounting for >50% of the total capital raised in 2024
Big (>$100mn) vs. small (<$100mn) deals mix (%) for global fintech funding 2017-2024



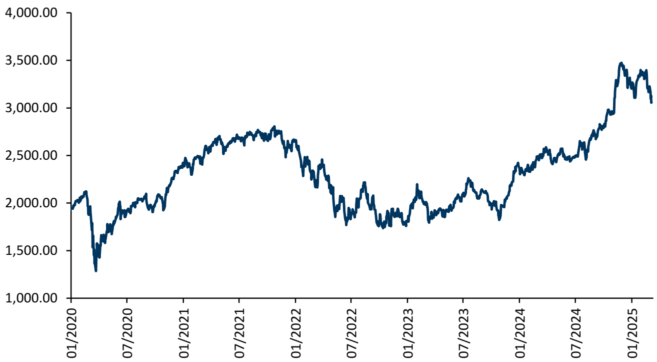
Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research

Exhibit 6: Fundraising activity continued to decline for the third year in a row...
Global fintech deal funding ($mn) 2018- 2024. Nasdaq Fintech Index (.KFTX, RHA)



Source: CB Insights, Thomson Reuters Eikon, Data compiled by Goldman Sachs Global Investment Research

Exhibit 7: ...despite a recovery in public market valuations in 2024
Nasdaq Fintech Index (.KFTX)

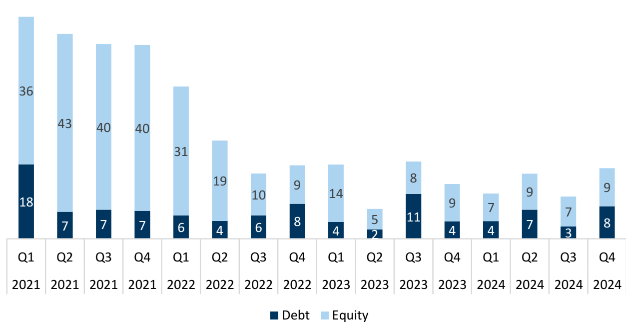


Source: Thomson Reuters Eikon

2024 saw a continued contraction in equity funding levels

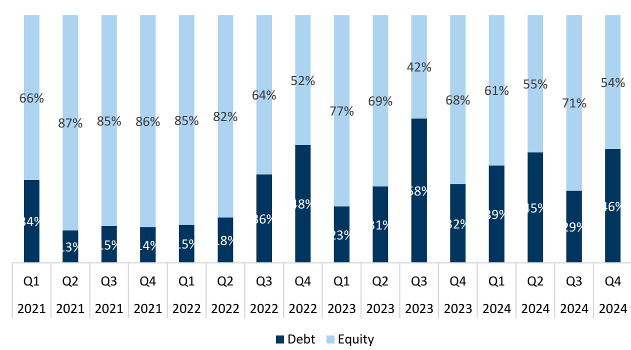
2024 witnessed a continued contraction in fintech funding levels across the globe, with a more notable decline in equity fundraising, which was down c.10% in 2024 vs. debt fundraising which remained broadly stable at $22bn. Furthermore, the funding mix shift dynamic from equity to debt which we highlighted in our 2023 report, Fintech 2.0: Shifting Sands in Funding Markets, continued even in 2024. In 2021, funding was split 80/20 equity/debt; in H2'22, this mix started to shift to 60/40, reflecting the broader strategy shift enforced on fintech companies by changing capital market conditions, i.e. that highly cash-consumptive growth was no longer a feasible strategy for many fintechs. For FY24, the share of debt in total funding remained closer to 40% levels. However, we also note that it may be too soon to call a shift in the narrative of debt gaining share, when the overall fundraising levels have contracted sharply.

Exhibit 8: We continued to see a slowdown in equity deals in 2024, while debt funding levels remained broadly stable y/y...
Debt vs. equity funding ($bn 2021-2024)



Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research

Exhibit 9: ...accounting for c.40% of the total funding share
Debt vs. equity funding mix (%) for global fintech funding, 2021-2024



Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research

European Banks: Strong capital positions and increasing supervisory focus driving Fintech investment

European banks continue to push their own neobank strategies

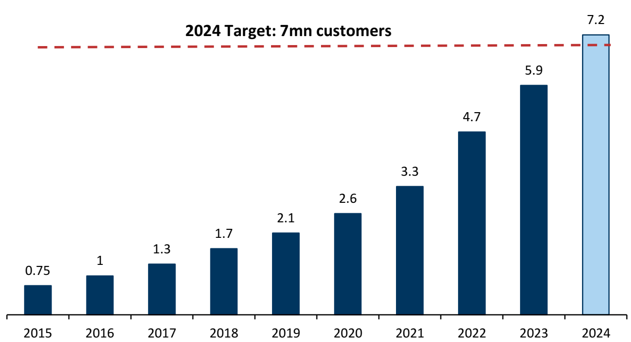
European banks continue to make progress on the build-out of their own neobanks, focusing on providing an enhanced offering to their clients at a lower cost. More favourable financial conditions and strong bank capital positions have accelerated the pace at which European banks are investing in the development of their own digital banks. Such investments have driven digital customer acquisition and improved service offerings at lower costs, driving efficiency gains. Some notable developments in the neobank space were highlighted by the management teams for the banks in our coverage:

- **Societe Generale's** digital bank, *BoursoBank*, saw a 461k quarterly addition in the number of clients in Q4'24, reaching 7.2 million in total at the end of 2024 (Exhibit 10), above the planned target.
- **BNP Paribas** further grew the customer base of its neobank, *Hello Bank*, to reach c.3.7mn customers as at the end of 2024, up 8.6% y/y vs. Q4'23.
- **Caixabank's** neobank *Imagin* saw an 11% y/y increase in the number of customers in 2024, reaching >3.5mn, vs. the target of a 3.5mn customer base. At the app user level, i.e. the number of customers who make use of their app's non-banking services (and do not make financial operations), the base has actually reached >4.5mn by end 2024.
- **Intesa** continues to develop its technology backbone, *Isytech*, which has been rolled out to its retail clients, having deployed ~2,320 IT specialists and €4.2bn in IT investments as at the end of 2024. Looking ahead, Intesa continues to expect the wider Group to benefit from this, and guides to ~€150mn additional gross income vs its initial 2025 business plan. In addition to this, it also expects to benefit from i) *Fideuram Direct*, its new digital wealth platform, which aims to increase the client base for Intesa's Private Banking division from ~60k clients in 2022 to ~150k clients by 2025 (with ~77k clients already by the end of 2024); and ii) adoption of artificial intelligence, which should contribute ~€100mn of additional gross income vs its initial 2025 plan. Overall, Intesa believes these contributions from Isybank, Isytech, Fideuram Direct and AI should result in **~€500mn additional gross income** vs its initial 2025 business plan.

At the same time as developing these new banking platforms/facilities, banks under our coverage have continued to modernise their traditional bank offerings. Among our Euro Area coverage, **BBVA** continues to increase its customer base, with ~7.5mn digitally acquired customers in 2024 vs. ~7.2mn digital customers in 2023 (Exhibit 11). **Credit Agricole SA's** digital customers reached ~76% of the total by mid 2024, up c.8pp since 2020. In terms of its target for *Blank*, its neobank offering, CASA continues to aim for 250,000 customers by 2025 including through white-label distribution (as laid out in its medium-term plan in 2022). **Erste Bank's** Retail digital banking platform, *George*, has grown its customers to 10.8mn by the end of 2024, across six markets.

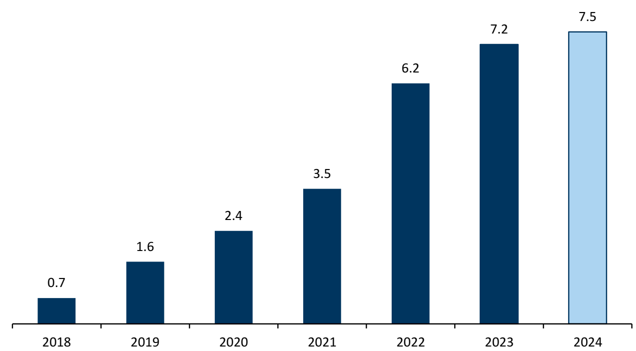
Among the UK banks, NatWest has grown its active digital users and digital engagement, with 79% of its retail banking customers banking entirely digitally in 2024 (up 2ppt vs. 2023); and 83% of its Commercial and Institutional customers banking digitally in 2024 (up c.2ppt vs. 2023). Turning to Lloyds, the group is the UK's largest digital bank, with 23mn digitally active users (as of 2024, up +7% yoy), with >20mn customers using its mobile application.

Exhibit 10: BoursoBank grew to 7.2mn customers by the end of 2024
BoursoBank total customers at period end (millions)...



Source: Company data

Exhibit 11: ... and BBVA had ~7.5mn digitally acquired customers, +5% y/y in 2024
BBVA digital customers at period end (millions)



Source: Company data

Partnerships and M&A remain a key avenue to expanding product offerings...

In addition to the ongoing development of in-house digital banking platforms, European banks have continued to join hands with smaller tech-focused partners. The combination of partnerships and strategic acquisitions enables a broad suite of financial services (payments, wealth management, trade finance, analytics, etc.) to be continually offered and improved. From enhancing existing capabilities to offering new and improved functionalities, these smaller tech-focused partners enable banks to improve their operational efficiency metrics, complementing their in-house platforms and products.

Among the recent notable developments in the European banking space over 2024, we continue to see a trend among banks entering into partnerships in order to support their payments systems/ processes. For instance, **Santander UK** entered into a payments partnership with *Token.io* to leverage its open banking infrastructure. **Commerzbank** has also entered into a joint venture with *Global Payments* (paytech) in order to cater to German SMEs, offering them new digital payment services. They have announced a collaboration with credit card fintech *Pliant* for the launch of fully digital credit cards. Additionally, **Commerzbank** has expanded its partnership with: i) *Worldline* (payment service provider) which enables real-time Euro transfers for its customers; and ii) *Visa* (global payments technology company) for its cards business. To facilitate faster and secure payments, **ING** has partnered with *Mastercard,* enabling 'Click to Pay' payment options for its customers on their app. **DNB** has announced a plan to leverage *Worldline's* Swift Service Bureau to enhance its payments infrastructure and capabilities and expand its reach. **ABN Amro** has entered into a commercial partnership with payments service provider *Buckaroo*. Some banks in our coverage have also renewed their already existing partnerships. For instance, i) **Intesa**, in order to drive financial inclusion, has reinforced its partnership with *Visa;* ii) *Worldline* has extended its long-term issuing deal with **KBC;** and iii) **Lloyds** has renewed its contract with *Visa* and further expanded its partnership with *Paypoint* across the UK to >60k SMEs. **Garanti BBVA** International has also signed a deal with *Worldline* in order to leverage its instant payments solutions. Furthermore, in order to boost its payments systems and processes and benefit from the offerings of these tech players, **BNP Paribas** has entered into strategic alliances with a) *BPCE* to create a new French leader in payment processing, *Estreem*; and b) *Ant International* in order to facilitate cross- border payment solutions for merchants and consumers in Europe. **Credit Agricole** Consumer Finance has announced the acquisition of a Buy Now Pay Later (BNPL) services provider, *Pledg*. Additionally, **Caixabank** has also started providing BNPL services to customers using *Apple Pay*. Lastly, **ABN Amro** has recently announced the launch of a 'Pay Later' pilot feature for its B2B transactions, in collaboration with paytech company *Two*.

Other than these payment-related initiatives, banks also remain focused on enhancing their digital capabilities and banking features, which in turn can be leveraged to improve the quality of services. **BBVA** in partnership with *Telefonica Tech* has launched a dedicated centre in Mexico to drive its cybersecurity efforts. In an effort to develop a global platform to offer to SMEs, **Santander** Corporate and Commercial Banking has announced a partnership with *dentsu*. In 2024, the bank also announced a deal with digital asset platform *Crypto.ai*. **BNP Paribas** has launched a UK fintech incubator, in partnership with *SuperTech*. **Intesa Sanpaolo** Private Bank has collaborated with

BlackRock to accelerate the growth of its digital wealth management offering in Italy and across Europe. In addition to partnerships, a few banks in our coverage also made acquisitions over 2024, including: i) **UniCredit** announced the acquisition of *Vodeno* (banking-as-a-service venture) and *Aion* (a Belgian digital bank); ii) **Bawag** announced the takeover of digital bank *Knab*, and iii) **ABN Amro** Bank completed the acquisition of *BUX*. Across our coverage, we have also seen a growing focus by banks on leveraging digitalisation and partnering with tech players in order to enhance their trade finance/ trade management solutions. For instance, **Commerzbank** has entered into an agreement with *Surecomp,* a trade finance solutions provider based in Canada, to automate its trade finance business's back office capabilities. **Deutsche Bank** leverages *Saphyre's* (fintech using automated intelligence technology to solve pre-trade activities and post trade issues) platform for better management of its trading relationships and agreements. **Lloyds** has announced a partnership with *WaveBL* in order to join its electronic trade documentation platform. Additionally, **SEB** leverages *Broadridge's* international post-trade processing solutions, while **Danske** uses *Broadridge's* solutions to boost its multi-asset trading, pricing and position management. Lastly, **Credit Agricole** CIB has launched a digital receivables and supply chain finance platform for APAC markets, in partnership with *Demica*. **Societe Generale** has deployed *Intellect Global Transaction Banking's*, Corporate and Treasury eXchange platform (CTX) in an effort to enhance and automate liquidity management across accounts and currencies. We also highlight a continued trend of collaborations with cloud solutions providers ,with: i) **BNP** announcing a partnership with *Oracle*; and ii) **Danske** signing a cloud deal with *Amazon Web Services* (AWS). Some other partnerships include **KBC** and *Doconomy* (Swedish fintech) in an effort to boost financial well-being for young adults; **Erste Group's** collaboration with an open banking solutions provider, *SaltEdge*; **Lloyds'** partnership with *ApTap*, a fintech startup, to help mortgage customers manage their bills better; **Handelsbanken** and UK-based fintech *Meniga,* as well as **Danske** and *Backbase,* mainly in order to leverage their customer management tools; and lastly, **ABN Amro**'s partnership with *nCino* for its digital banking platform to boost corporate lending operations and collateral management across business lines.

...and banks continue to make selective small investments in fintechs despite continued muted fundraising levels

2024 was the lowest year of global fintech fundraising since 2018. This contraction in the availability of capital to private fintech companies, however, has not impacted banks' selective investment strategy as they continue to invest proactively in the space, building on their domain expertise.

This strategy is evident across the Euro Area, where banks continue to make investments in future partners and enablers. For instance, **Deutsche Bank** has invested $20mn in Singapore-based fintech *Partior*, in its Series B funding round. **Intesa Sanpaolo Private Banking**, Fideuram, has announced a SFr40mn investment (with contributions from other existing investors) in *Alpian* (digital bank in Switzerland), acquiring the majority stake in the bank upon receiving all regulatory approvals. In February 2024, **UBS Next** announced an investment in a London-based data firm, *Synthesised Ltd*. Furthermore, the fintech VC arm of Commerzbank,

CommerzVentures, has led a €25mn Series B funding round in *Tuum*, an Estonian core banking provider. In early 2024, **BNP Paribas** along with Citi announced an investment in *United Fintech*, a neutral digital transformation platform. Among the UK banks, in 2024, **NatWest** announced an investment in payments technology and consultancy services fintech *Icon Solutions*. More recently, as a part of its *Fintech Growth programme*, it has selected five startups to help it scale up. **Lloyds**, on the other hand, has announced a GBP3mn investment in a proptech startup, *Coadjute*. **Barclays** completed a Series B funding round for *Funding Xchange* (provider of white label software for lenders to SMEs) in 2024, and has also announced a GBP4mn seed round in a wealthtech startup, *WealthOS*. Lastly, among the Nordics, we note i) **SEB** announcing a minority stake in *Kivra*, a digital document exchange firm offering the bank its platform and tailor-made products and services; ii) **Danske's** investment in *United Fintech*; iii) **DNB's** venture arm investing €1.7mn in an Oslo-based fintech startup, *Receipts;* and iv) **SEB** venture capital arm's investment in *Lumera*, a Swedish player in the insurance administration software space.

Supervisors remain focused on ensuring risk mitigation strategies related to digital transformation - further encouraging Fintech investment by incumbent Banks

Supervisors continue to highlight the importance of developing digital transformation capabilities for banks, while also ensuring sound business models and adequate risk mitigation strategies. **The ECB Banking Supervisors** as part of their latest 2024 Supervisory Review and Evaluation Process (SREP) note that they continue to assess banks' progress in digitalisation and track how they identify and mitigate any related risks. In this context, they have also published key assessment criteria and sound practices that should be considered when thinking about the impact of digitalisation, which are grouped together according to three focus areas: (1) **business model impact** (identify, assess and monitor the current and forward-looking impact of digital trends on business environment), (2) **governance** (management body should have necessary digital knowledge and skills to evaluate digital strategies and initiatives and understand risks related to these activities) and (3) **risk management** (impact of digitalisation on the institution's risk profile).

The main observation from the SREP exercise was that the banks which were highly focused on digital transformation efforts to drive operational efficiency witnessed incremental digital improvements and transformed both their front and back office operations, albeit with still some scope for improvement in terms of having granular key performance indicators to measure the impact of these strategies on P&L. Going ahead, the supervisors note that they will expand their focus to also include reviewing the use of specific technologies more broadly, and look more closely at how banks evaluate various digitalisation efforts in the context of their investment decisions.

Furthermore, in December 2024, as part of their medium-term strategy, ECB Banking Supervisors set three priorities for 2025-27, and one of these is for banks to remain focused on progress related to digital transformation efforts, strengthen their digitalisation strategies and tackle any emerging challenges stemming from the use of new technologies.

Confluence of cyclical and structural factors continue to support our Fintech 2.0 view

Going forward, over the medium term we expect rates to settle higher vs. historical levels. This, coupled with improving fee-income and manageable opex, should continue to support bank profitability and returns. Banks across our coverage continue to be better capitalised and highly capital generative, while the growth in technology enablers is supporting ongoing fintech innovation among incumbent banks, enabling the build-out of innovative in-house neobank platforms. Even though private fintech companies are facing a difficult landscape for raising capital, leading to a sharp contraction in global fintech funding levels, banks across our coverage continue to i) invest in the development of their own neobanks; ii) enter partnerships and make strategic acquisitions in order to support their digital transformation efforts; and iii) make selective investments, building on their domain expertise. Finally, regulatory scrutiny is also increasing, especially in Europe with regard to entry into and conduct within the European banking market.

Exhibit 12: We see the current environment marked by Fintech 2.0 operating conditions

Fintech 1.0	Fintech 2.0
1) Low rates	1) Higher rates
2) Distracted and challenged incumbents	5) Focussed and profitable incumbents
3) Easy access to capital	2) Challenging access to capital
4) Nascent technologies	3) Proven technologies
5) Large white space opportunities	4) Well documented new business models
6) Low regulatory scrutiny	6) Increasing regulatory scrutiny

Source: Goldman Sachs Global Investment Research

See: European Banks - Adjusting to Fintech 2.0

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Reg AC

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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