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# STATE OF GLOBAL FINTECH

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CONTRIBUTOR

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**JAPAN  
FINTECH  
FESTIVAL™**



THE POTENTIAL OF AI

FUNDING WINTER

INFLATION

QUANTUM COMPUTING

BANK FAILURES

MASS LAYOFFS

RISING INTEREST RATES

A NEW FUTURE OR ARMAGEDDON?

## How Do We Even Begin To Describe 2023?

2023 wasn't a typical year for FinTech. The industry saw a **significant rebalancing** with reduced investment, lower valuations, and major layoffs. However, this doesn't signal an end to growth. Instead, it's a **healthy correction** that has brought the industry back to earth and refocused its priorities on **sustainable growth and profitability**.

The fundamentals remain strong: the financial services market is vast and lucrative, and FinTech continues to offer innovative solutions to persistent pain points. In this report, we explore the key trends of 2023 and what lies ahead in 2024, including:

- **Continued momentum for digital assets** with regulatory progress and potential flow of institutional capital
- **Growing adoption of AI in financial services**, with both opportunities and regulatory challenges to navigate
- **Early advancements in quantum computing** and its potential impact on the financial system

We end with a **spotlight on Japan**. Despite boasting the world's fourth largest economy and a strong 2023 stock market performance, Japan's FinTech ecosystem remains relatively underdeveloped. However, this is set to change with the current Government's increased policy focus on innovation and start-ups. We also examine how global players are increasingly recognizing Japan's rising potential.

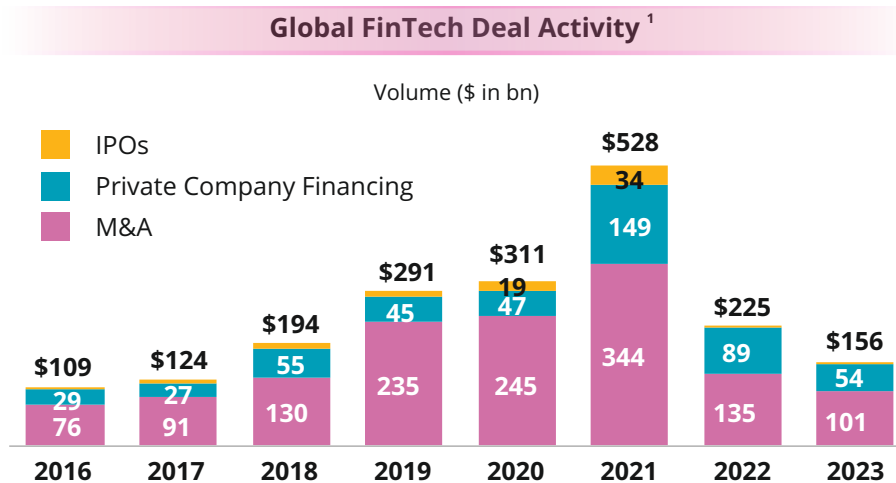
## 2023: The Year Of Rebalancing

### 1 Reduced capital flows in the sector

2023 has seen an arguably overdue rebalancing with valuations down across all sectors, including in FinTech. Valuation expectations were re-assessed and there were fewer "mega-deals" as founders and investors accepted the new normal and re-evaluated business models and goals.

# DEAL ACTIVITY LAYOFFS TREND

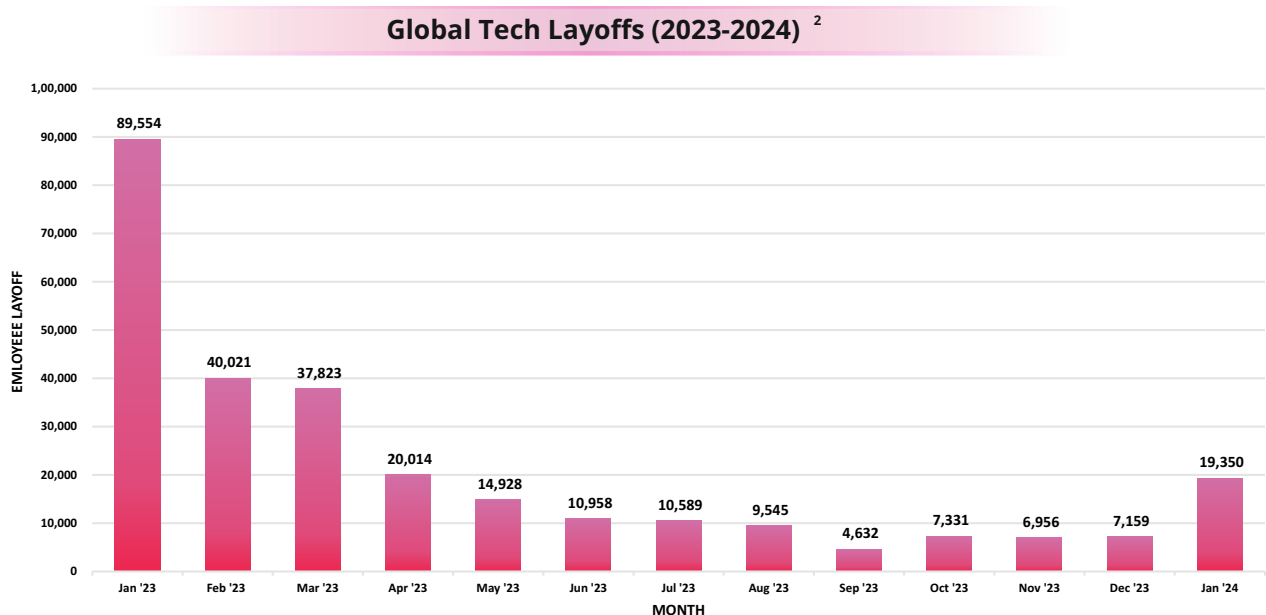
For FinTech, global deal volume in 2023 (\$156 billion) declined approximately 70% from its 2021 peak. The 2023 volumes resemble those from five years ago i.e. 2018. The lower deal numbers in 2023 were driven by decreased M&A volume, as fewer \$1 billion+ deals were announced.



Source: FT Partners: The FinTech Journey Continues

## 2 Continued trend of Layoffs

2023 witnessed a tech bloodbath, with over 260,000 global employees laid off – a trend continuing in 2024. Tech giants like Google, Amazon, and Microsoft led the charge with major cuts early on, followed by a wave across smaller startups. While the pace subsided, the year ended with tech layoffs still a reality, reflecting shifting priorities and the bite of economic uncertainty. A similar trend was observed in the FinTech sector.



Source: A comprehensive list of tech of 2023 & 2024 tech layoffs, Techcrunch, 2024

## Yet, Industry Fundamentals Remain Strong

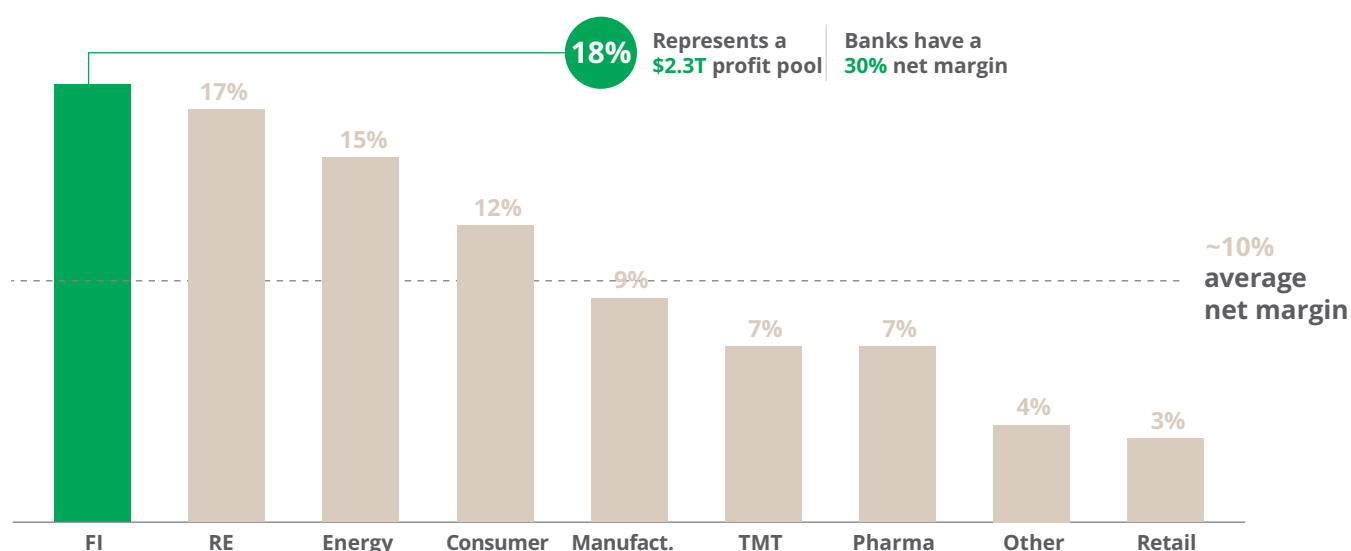
Indeed, 2023 has been a humbling experience for FinTech. That said, the actual dollar volume is still significant - \$156billion of funding flowed into FinTechs in 2023<sup>3</sup>. The challenges FinTechs have faced in the past 12-18 months likely represent a short-term correction in an otherwise long-term growth story. The fundamentals of the industry remain strong, and both investors and operators alike are ready for the next chapter – i.e. one focused on resilient and profitable growth.

The FinTech industry's core strength lies in its ability to disrupt financial services - one of the largest and most lucrative sectors of the global economy. Per BCG analysis, financial services represent \$12.5 trillion in annual revenue pools that deliver an estimated \$2.3 trillion in annual net profits or additional value— one of the highest average profit margins across all industries of 18%.

This translates into key advantages for FinTechs: a vast addressable market, attractive profit margins, and persistent pain points that FinTech solutions address.

### Financial Services Is One Of The Most Profitable Sectors Of The Global Economy <sup>4</sup>

Net Margin (%) by Industry, Global



Source: Reimagining the Future of Finance, BCG and QED, May 2023

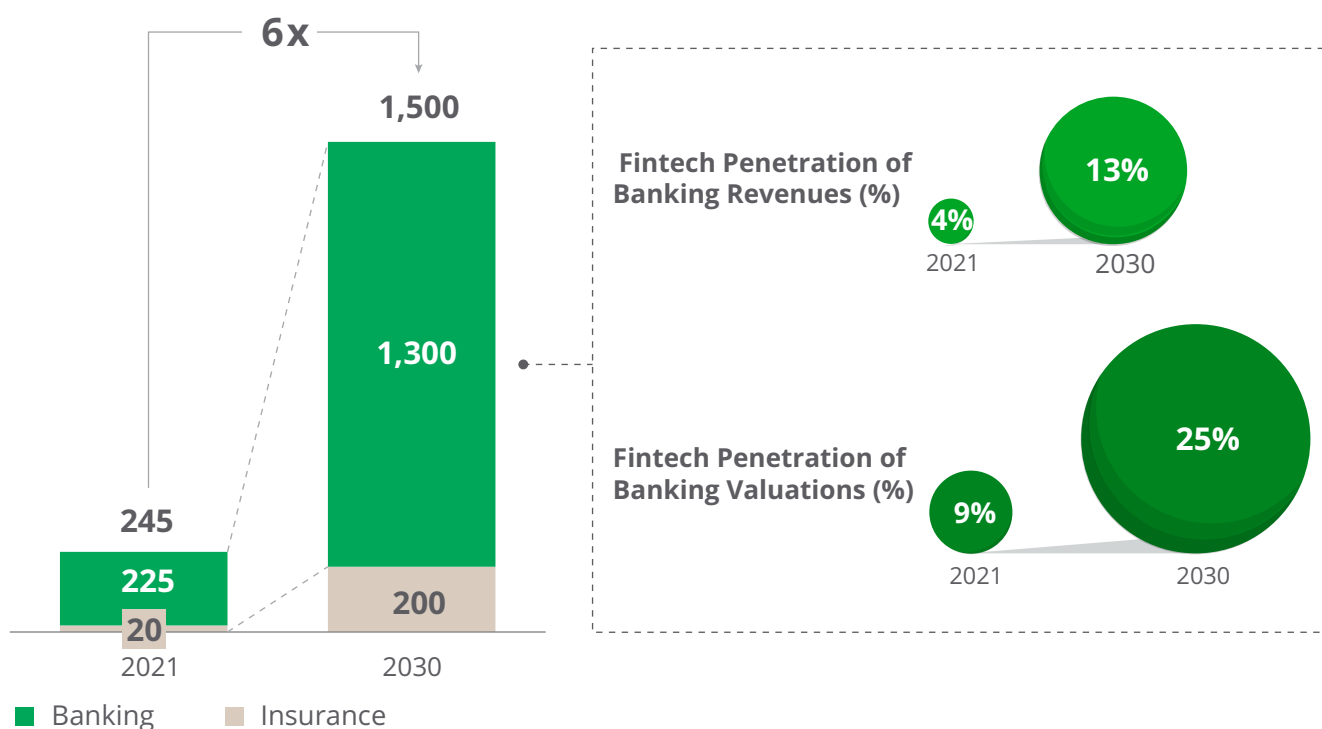
The \$12.5 trillion financial services industry is poised for significant expansion in the next decade. BCG projects that by 2030, global banking and insurance revenues are expected to reach \$21.9 trillion, a 6% compounded annual growth rate.



Correspondingly, BCG expects annual fintech revenues to grow more than sixfold from 2021 to 2030 to reach \$1.5 trillion. Banking FinTech revenues are projected to grow to 13% penetration of banking revenue pools by 2030, and are expected to represent one-fourth of global banking valuations. On the other hand, InsureTechs are projected to grow to a 2% market penetration of insurance revenue pools.

**Annual Fintech Revenues Will Grow Six-fold To Reach \$1.5 Trillion By 2030, Heavily Skewed Towards Banking Segment <sup>5</sup>**

Global Fintech Revenues (\$B), split by Banking and Insurance

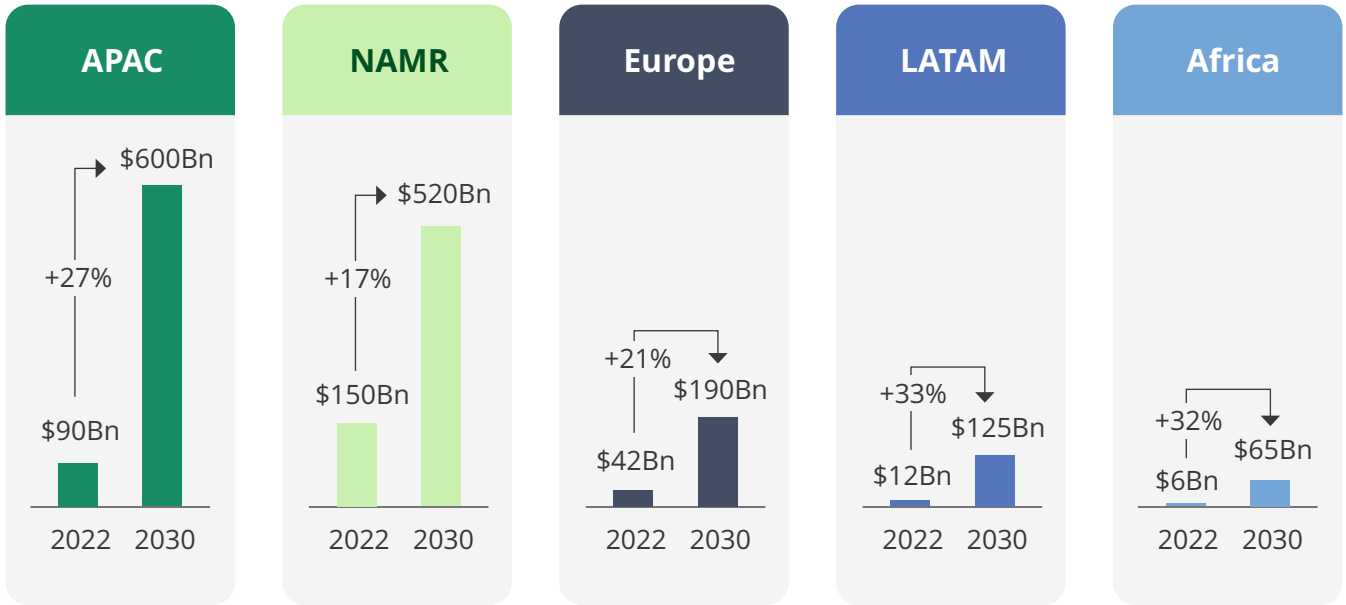


Source: Reimagining the Future of Finance, BCG and QED, May 2023

However, the shape of this expansion will play out differently both by geography and by segment.

# FINTECH MARKET FORECAST

**Asia-Pacific will be The Largest Fintech Market by 2030, and Latin America and Africa will be The Fastest-growing Regions <sup>6</sup>**

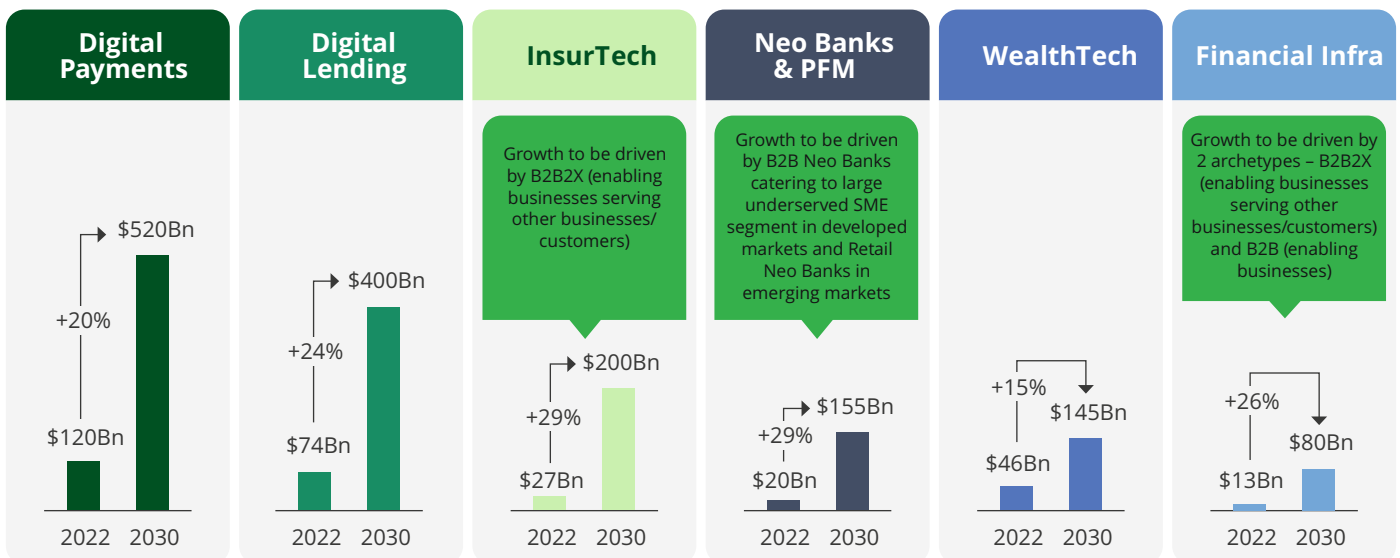


Source: The Second Wave Resilient, Inclusive, Exponential Fintechs, BCG, September 2023

By 2030, digital payments and lending will continue to remain the largest Fintech segments, however neo-banking, insureTech and financial infrastructure<sup>7</sup> will be the fastest growing segments.

**Payments will Remain the Largest Fintech Segment in 2030 <sup>8</sup>**

2022 & 2030 Global Fintech revenue by product segments (\$Bn)



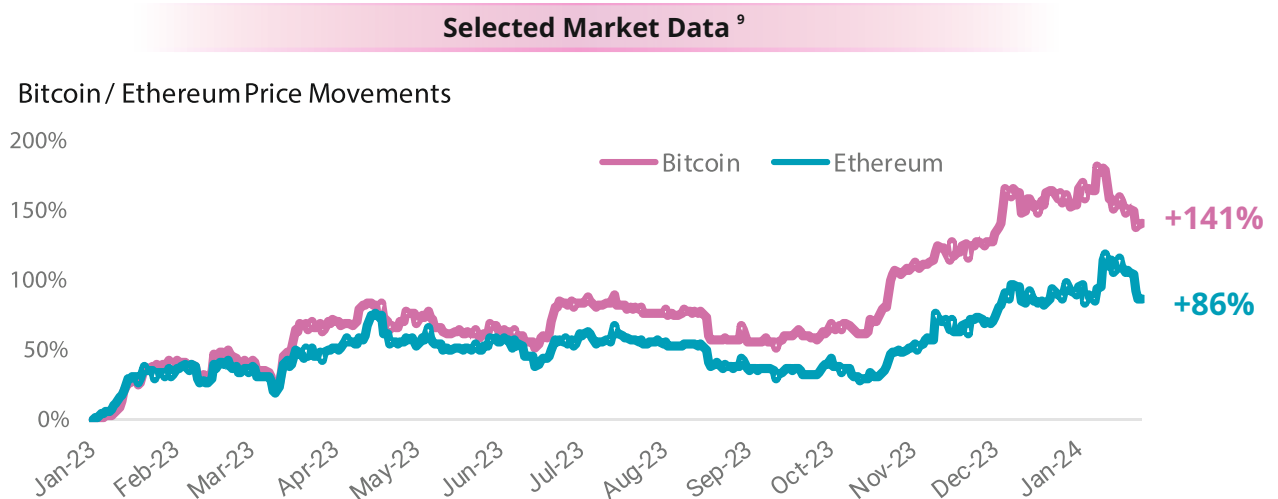
Source: The Second Wave Resilient, Inclusive, Exponential Fintechs, BCG, September 2023

## Trends To Watch In 2024

### 1 Continued momentum for digital assets use cases

2022 and early 2023 saw a brutal crypto winter, fuelled by market conditions and the FTX collapse. Bitcoin and other major cryptocurrencies plummeted.

Over the last few months of 2023, however, the market began to experience a turnaround with digital asset prices increasing, including Bitcoin ending the year up more than 150% (as momentum began to build around the potential regulatory approval of spot Bitcoin ETFs in the US).



Source: The FinTech Journey Continues, FT Partners, January 2024

While the overall view of potential use cases for crypto and DeFi has possibly narrowed, this is seen as a positive sign of maturation, moving away from pure speculation.

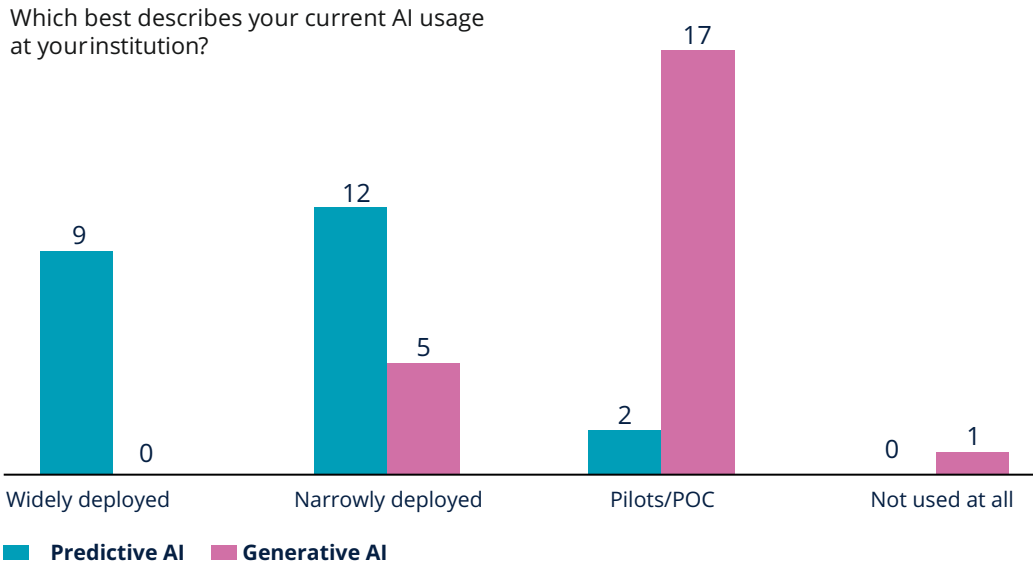
On the public side, governments are continuing to invest in CBDC development - 19 of the G20 countries are now in an advanced stage of CBDC development. Of these, 9 countries are already in pilot. Nearly every G20 country has made significant progress and invested new resources in these projects over the past six months.<sup>10</sup>

### 2 Momentum in artificial intelligence (AI) adoption in the financial services

AI adoption in financial services is growing, with predictive AI systems already deployed across many functions, and further growth expected in conjunction with the adoption of generative AI.



## Oliver Wyman Survey Results on AI Usage in Financial Services <sup>11</sup>



Note: Widely deployed (five or more functions), Narrowly deployed (fewer than five functions), Pilots/POC (proof of concept) does not correspond to functions as it is in the conceptualisation/planning phase

Source: The Impact of AI In Financial Services, Oliver Wyman, 2023

As AI fast becomes an inescapable force in financial services, regulators and policy makers are naturally taking notice.

Gary Gensler, Chairperson of the US Securities Exchange Commission elaborated on his views, highlighting the potential for AI to be "**the centre of future crises, future financial crises.**" Such a statement underscores the gravity of the threat and also indicates the SEC's intent to stay ahead of potential regulatory challenges posed by these emerging technologies.<sup>12</sup>

On the other side of the pond, is the EU AI Act - the first-ever comprehensive legal framework on AI worldwide. Per the EU regulatory framework, AI systems that can be used in different applications will be analysed and classified according to the risk they pose to users. The different risk levels will mean more or less regulation.<sup>13</sup>

On 2 February 2024, Representatives from EU member states unanimously voted to advance the Artificial Intelligence Act, setting the stage for the first set of rules that will influence how AI is governed in the region and around the world.<sup>14</sup>

### 3 Quantum computing

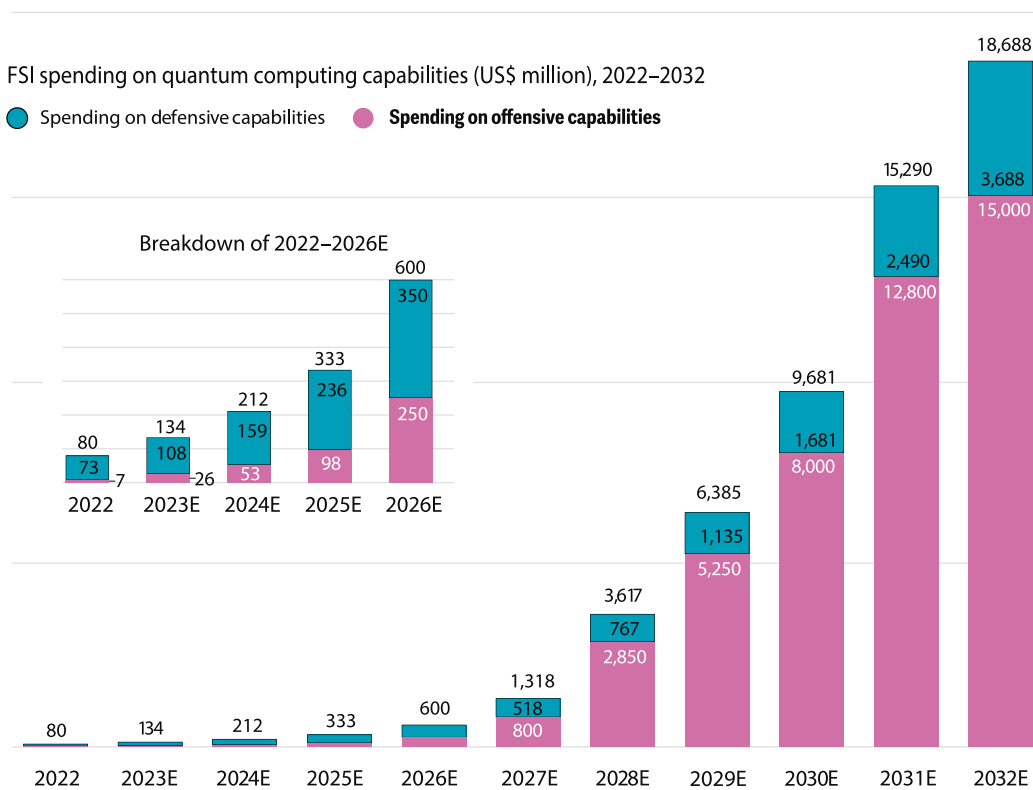
In 2023, quantum technologies continued their advance beyond their theoretical statements to initial practicality, seeing startups transitioning from the lab to the market



and physical full-stack deliveries of quantum computers emerging in national labs and quantum centres.

Increased capital investments and patent filings for hardware technology indicates spending on quantum-related capabilities will likely grow quickly over the next few years. Deloitte expects, the financial services industry’s spending on quantum capabilities to grow 233x from USD 80m in 2022 to USD19bn in 2032 (72% CAGR)<sup>15</sup>. While the initial focus is on “defensive spending”, some firms are already focussing on generating revenues with quantum computing enabled capabilities.

**The financial services industry’s spending on quantum computing is expected to rise significantly<sup>16</sup>**



Source: 2023 FSI Predictions, Deloitte Insights, 2023

Naturally, regulators are also paying attention. Recently, the Bank of International Settlements (BIS) has warned that quantum computers could compromise cryptographic protocols, i.e. those that can affect financial-system data and transactions. The US National Institute of Standards and Technology also closed its consultation for draft cryptographic standards to resist future quantum computer attacks, marking a significant milestone in moving post-quantum cryptography from research to a global IT migration strategy.<sup>17</sup>

## Spotlight: JAPAN

Japan's stock market experienced a strong performance in 2023, exceeding expectations and outperforming many other developed markets. The major indices, the Topix and the Nikkei 225, both saw significant gains throughout the year. The Topix rose by 24% in local currency terms, while the Nikkei 225 climbed by c. 30% to hit levels not seen since 1989. These increases have put Japan among the best-performing stock markets globally.

### Nikkei 225 Index <sup>18</sup>

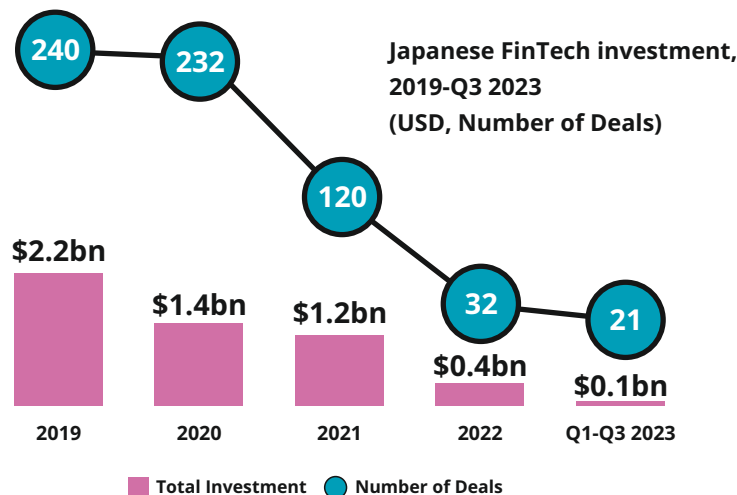


Source: Nikkei 225 Index, Investing.com

## FinTech Ecosystem

Despite being the 4th largest economy in the world, Japan has historically not been viewed as a FinTech powerhouse.

### Japan FinTech Funding <sup>19</sup>



Source: Japanese FinTech deal activity on track to decline for fifth year straight, Fintech Global, November 2023

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## Driving Innovation

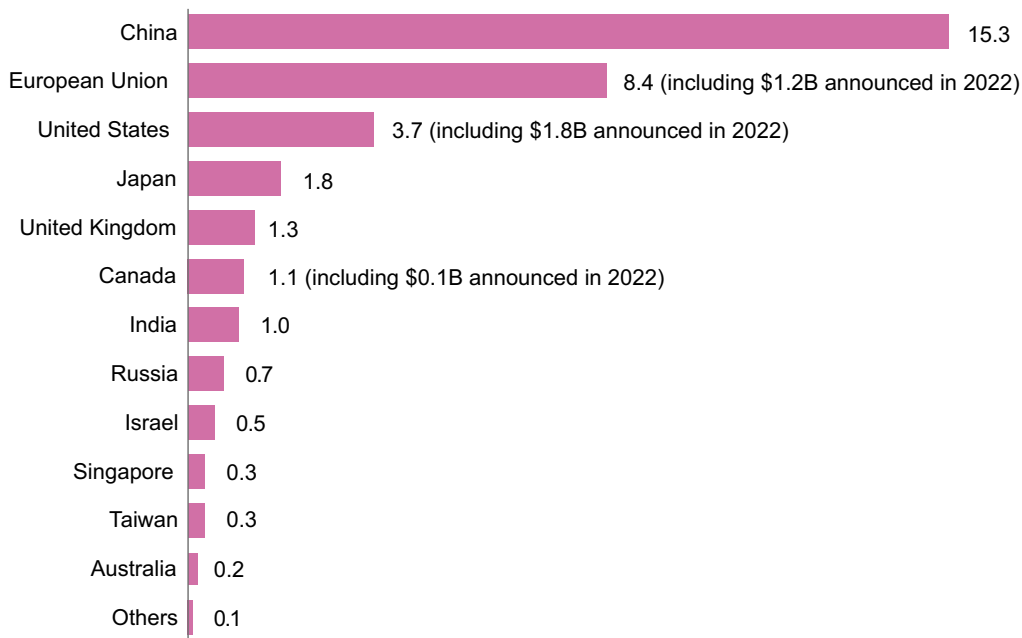
However, this is set to change as the Japanese government is investing to further innovation in the country.

Recently, the Japanese Ministry of Economy, Trade, and Industry (METI) opened the Japan Innovation Campus in Palo Alto, California, with a view integrate Japanese startups into Silicon Valley. This initiative is part of the Kishida administration’s broader efforts to prioritize growth of the Japanese tech industry, evidenced by the launch of the 2022 Integrated Innovation Strategy. The administration seeks to reinforce mechanisms for initiating and growing startups, increase research and development using tax incentives, and expand the Small Business Innovation Research (SBIR) program.<sup>20</sup>

An example is within quantum computing, where Japan is among the top 5 countries (at this time) when it comes to public investment in the sector.

### Announced Investment in Quantum Computing<sup>21</sup>

Announced governmental investment, \$ billion



Source: Quantum Technology Monitor, McKinsey, April 2023

## In Japan, private investment in quantum technology remains low, though public investment is stimulating quantum efforts <sup>22</sup>

**~\$1.8 billion**  
of public investment

**~14%**  
of all QT-related patents have been granted to Japanese researchers

**17**  
companies active in QT

**~\$58 million**  
of private investment into Japanese QT start-ups

**7**  
dedicated QT research institutions

### News

- 2018: Japan's Ministry of Education initiated MEXT Q-LEAP, a Quantum Leap Flagship Program with the goal of advancing QT across four areas: QC, QS, next-gen lasers, and quantum human resources
- 2019: Japan started the Moonshot Project, with the goal of creating a fault-tolerant universal quantum computer by 2050
- 2021: The Integrated Innovation Strategy Promotion Council, formulated by the Japanese government, proposed the creation of a Quantum Technology International Collaboration Hub at the Okinawa Institute of Science and Technology (OIST)
- 2022: The government of Japan formulated the Vision of Quantum Future Society, with goals of ten million quantum users by 2030, subsidizing quantum technology start-ups, and establishing ecosystem-supporting public-private collaborations
- 2022: Fujitsu and RIKEN Research Institute planned to jointly offer quantum computers to enterprise clients starting in April 2023

Source: Quantum Technology Monitor, McKinsey & Company, April 2023

On the AI front, Japan has also introduced guidelines for companies that use artificial intelligence, aiming to avoid excessive restrictions while ensuring safety through transparency measures such as the disclosure of training data. The guidelines were outlined at a government AI strategy meeting, where it also was revealed that the government would seek 164 billion yen (\$1.11 billion) for AI-related spending in the fiscal 2024 budget, up 50.3 billion yen (3.3x increase) from fiscal 2023. The Japanese are aiming to follow an approach similar to the one taken by the U.S. government. <sup>23</sup>

## Japanese Governments Seeks to Triple AI Related Spend in 2024 <sup>24</sup>

“**The global private sector is taking notice - in June 2023, OpenAI, announced its plans to establish an office in Japan, highlighting the country's technological advancements**”





## In Conclusion

2023 brought necessary rebalancing to FinTech - valuations expectations stabilised, deal flow slowed hopefully only momentarily, and layoffs rose but again we hope they are beginning to slowdown. We know that beneath the surface, the industry's core strength remains. Investors and operators are shifting their focus towards resilient and profitable growth, laying the foundation for a new and sustainable chapter in FinTech's evolution.

Trends like responsible digital assets growth, increase in artificial intelligence use cases and growth in quantum computing offer exciting possibilities for the future. Sustainable growth in these technologies demands responsible development and regulatory frameworks.

As for Japan, we are delighted to note that Government led initiatives are putting the country on a firm path to become a leading FinTech powerhouse. With continued focus on collaboration between the private and public sectors, Japan has all the ingredients necessary to become a significant force in the future of FinTech.

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