

FinTech in Germany

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“FinTech,” the now ubiquitous term used to describe the digital union of financial services and technology, has transformed the global financial services landscape. Germany’s FinTech market is now one of the biggest in the world. FinTechs have firmly established their presence in the marketplace.

Global Adoption

FinTech adoption rates are growing around the world. According to EY, 64 percent of global consumers use FinTechs – with the rate as high as 87 percent in China and India. FinTech adoption in Germany almost doubled during the period 2017-18, with German use now at the same level as the global average.

Digital Infrastructure

The appropriate digital infrastructure is essential for FinTechs active in developing digital markets. Internet penetration levels in Germany are hovering around the 94 percent mark according to the Statista Digital Market Outlook 2019. The country also has the highest share of online payment users in the world. Growing FinTech adoption rates in Germany are also tied into broadband availability and mobile device uptake levels as well as an internationally strong GDP level.

Maturing Market

According to EY, Germany’s FinTech marketplace is showing increased maturity – best evidenced by rising average deal sizes and funding volumes as well as increasing interest levels from international investors. In the region of EUR 676 million venture capital (VC) was invested in FinTech in 2018, with EY reporting EUR 704 million VC investment for the first half of 2019 alone. This makes FinTech and InsurTech the single biggest recipients of VC investment in Germany. FinTechs in Germany now provide digital services along the entire financial value chain of companies and other clients, with VC investment set to grow for the foreseeable future.

FinTech in Numbers



FinTech Companies

800

FinTech and InsurTech companies active in Germany



FinTech Adoption Rate

64%

take-up rate now at global average



Start-up Investment Level

€704 million

start-up investment in FinTech/InsurTech in 1H 2019



Visit our website for more FinTech market information:

www.gtai.com/fintech

Market Opportunities

Germany's maturing FinTech market provides excellent opportunities for international investors in a number of market segments including personal finance, digital payment and insurance services.

Banking

Germany's banking sector secured the most FinTech investment in 2018, raising EUR 189 million of investment capital in just two rounds according to EY. Incumbent banks, in order to offset annual losses of around three percent of turnover to FinTechs, are increasingly turning to cooperations and partnerships with FinTechs according to Clairfield International. A number of FinTechs are also employing a "cooperation through acquisition" strategy. According to PwC, there have been 92 FinTech buyouts since 2013, with around half of these seeing FinTechs buying up other FinTech companies. Sixty-four percent of all takeovers were of FinTech start-ups in the B2B sector, with the remaining 36 percent active in the B2C sector. FinTech challenger banks attracted significant VC investment in 2018.

Digital Payments

The global digital payments market will grow at an average annual growth rate of around 14 percent for the period 2017-2023 according to the Statista Digital Market Outlook 2018. Digital commerce represents the single biggest market with USD 2,548.5 billion (88 percent share) of total 2017 transaction value, rising to USD 4,228 billion (67 percent share) in 2023. FinTech plays a decisive role in the delivery of digital payment services – be it digital commerce or mobile POS payments. Germany is home to the second-biggest digital payments market in Europe. The Statista Digital Market Outlook 2019 reports that it also had the highest number of digital commerce users in Europe in 2018. Transaction volume in the digital commerce segment will be approaching EUR 104 billion in 2019 according to Statista, also making the country the fifth-biggest digital commerce market internationally. A transaction volume of EUR 130 billion is foreseen for the year 2023 (equivalent to annual average annual growth of 5.6 percent), with an average transaction volume of around EUR 1,400 per user.

InsurTech

Germany's InsurTech market continues to grow apace thanks to increased investment activity in the sector. The domestic InsurTech landscape is evenly spread across the country, with major hubs in Cologne and Munich. In 2019, there were in the region of 134 InsurTechs active in the country – more than double the number in the marketplace just three years ago. According to research conducted by InsurLab and EY, InsurTechs are intensifying their footprint in the incumbent value chain, with rising investment indicative of increased interest among both domestic and international investors.

Regulatory Framework

Who regulates banking, financial services and insurance providers in Germany?

The Federal Financial Supervisory Authority (BaFin) is one of Europe's largest financial supervisory authorities. BaFin ensures the stability of the largest financial market in continental Europe as an integrated financial supervisor for the banking, securities and insurance sectors.

Are FinTechs subject to special regulation?

Germany has a regulatory level playing field, meaning that companies providing the same financial services with the same risks are subject to the same level of supervision and regulation. Some FinTechs – subject to their business model and structure – may be subject to BaFin supervision. Other FinTech companies need only comply with the requirements of the Industrial Code.

What FinTech business models are subject to authorization?

The different business models laid out by BaFin are indicative in nature and do not constitute a final legal assessment by the authority. Authoritative evaluations are made on a case-by-case basis.

→ www.bafin.de

€149.2 bn

Digital Payment
Market Volume in
Germany 2023

€2,948

Average Digital Payment*
Transaction Value by User
in Germany 2023

€29,469

Special Insurtech Transaction
Volume in Germany
2023

€277

Average Special InsurTech
Transaction Volume by User
in Germany 2023

*cumulated sum for digital commerce and mobile POS payments
Sources: Statista Digital Market Outlook (FinTech Report) 2019, Statista 2019

Inter-FinTech Cooperation

A number of local FinTechs are following a path of inter-FinTech cooperation in order to expand beyond their normal market territory into adjacent industry segments (including personal finance and insurance) according to EY. Cross-segment partnerships can allow FinTechs to access a greater consumer base, reduce their client acquisition spending and move more quickly to market. This trend has been most noticeable in the case of B2B FinTechs whose technology and infrastructure services "enable" FinTechs in different segments. Germany's B2B segment also provides singular opportunities for FinTech service providers to tap into the country's thriving market of around 3.6 million registered SMEs. They represent more than 99 percent of all enterprises, of which more than 350,000 are exporters to global markets.

Accelerators, Incubators and Company Builders

Germany is home to numerous accelerators, incubators and company builders who provide funding and support services to help high-potential start-up enterprises scale their business in Germany and beyond. The German accelerator (www.germanaccelerator.com), backed by the Federal Ministry for Economic Affairs and Energy (BMWi), supports German-based start-ups enter US and southeast Asian markets.

Germany has a number of advisory policy bodies, platforms and initiatives that are working together to ease market entry and support market growth activities across industry sectors.

Association of German Banks

The Association of German Banks actively promotes partnership between banks and FinTech companies. As well as providing extraordinary membership to a number of FinTechs, the association has established a Digital Banking Project Committee (made up of Chief Digital Officers from the banking sector and leading figures from the German FinTech scene) and a Digital Banking Forum that provides a platform to banks, FinTechs, academics, start-ups, policy makers, and administrators. → www.bankenverband.de

Bitkom

Bitkom is Germany's digital association representing companies active in the digital economy. The association's "Banking, Financial Services & FinTechs" steering group is working to create a digital single financial market in Europe. The association networks FinTechs, established banks and incumbent insurance providers, IT service providers, and legal experts to promote innovation-friendly market framework conditions. → www.bitkom.org

Digital Hub Initiative

The Digital Hub Initiative, developed by the BMWi, supports the establishment of digital hubs in Germany. There are currently 12 centers of digital excellence promoting partnership between companies and start-ups in cluster environments. Berlin and Frankfurt are home to FinTech clusters, with InsurTech clusters located in Cologne and Munich.

→ www.de-hub.de

The Fintech Council

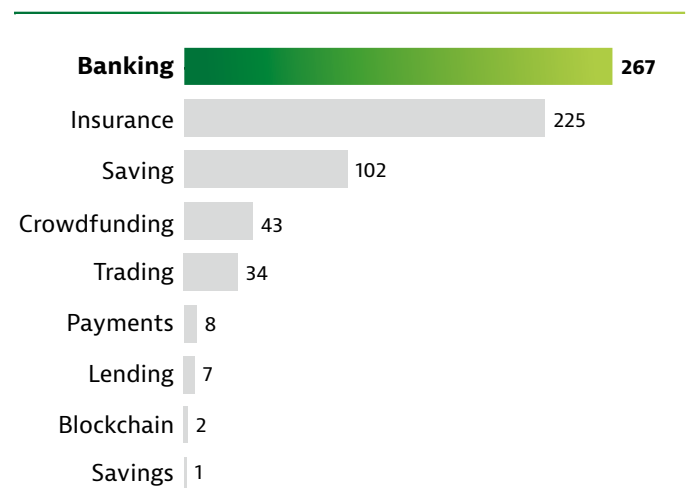
Established in 2017 by the Federal Ministry of Finance (BMF), the FinTechRat ("FinTech Council") consists of 29 independent digital technology member experts who provide advisory services to the BMF on digital financial technology issues including AI, cloud computing, blockchain and data protection.

FinTech Internationalization

The EY German FinTech Report observes that innovative technologies and disruptive business models are removing market entry and expansion barriers, with German FinTechs looking to expand beyond Germany and international FinTechs also entering the German market. Almost three quarters of foreign FinTechs are active in the Banking & Lending, Payments and Enabling Processes & Technology segments. The strategic importance of the German market is a major motivating force thanks to its size.

VC Investment by FinTech Segment 1H 2019

in EUR million



Source: EY Startup Barometer Deutschland 2019

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