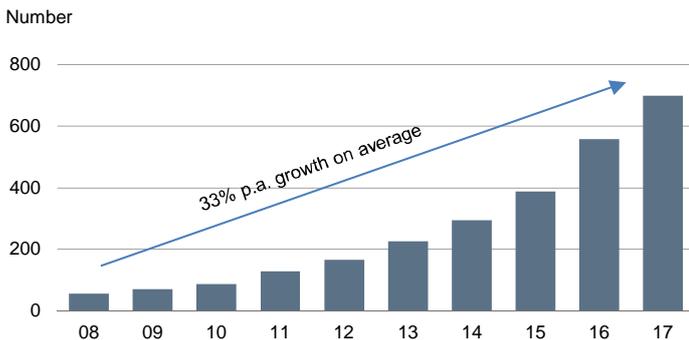




## German FinTechs on the rise A mixed blessing for banks, beneficial for clients

FinTech start-ups in Germany surge

1



Sources: Federal Ministry of Finance, various sources, Deutsche Bank Research

— Germans use digital financial services in large numbers. In 2017, three-quarters of internet users used online banking services, according to survey responses. 30% of those did not visit a bank branch at all.

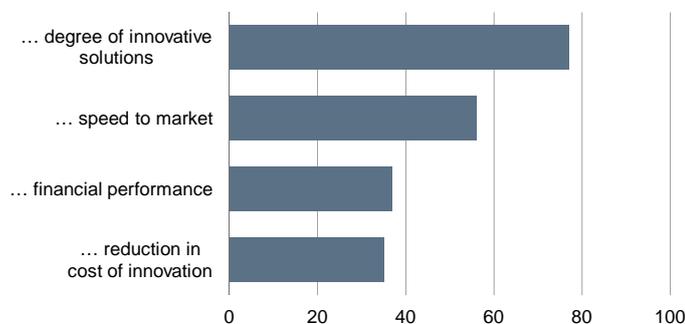
— With financial services becoming ever more digital, financial technology (FinTech) start-ups are increasingly visible in Germany: 4% of all German start-ups were FinTechs in 2016. This is 4<sup>th</sup> place behind the number of start-ups in software development or services (31%), industrial technology (9%) and e-commerce (7%).

— In 2017, the total number of FinTech start-ups reached around 700. Average growth rate during the last 10 years was a staggering 33% p.a.

Banks say: Cooperation with FinTechs contributes to ...

2

% of European survey responses in 2016



Sources: EBF, Deutsche Bank Research

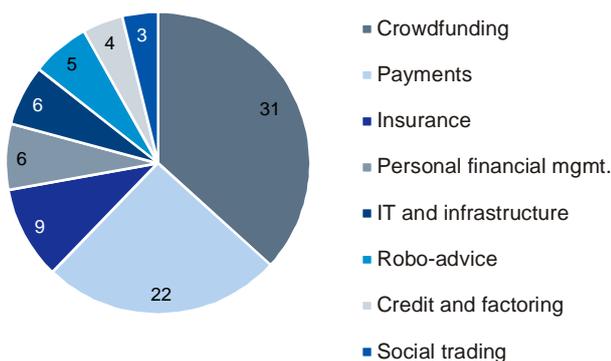
— Berlin is the capital of German FinTech start-ups, hosting around one-third of them. Globally, Berlin ranks tenth as a FinTech hub, thanks to its strength in attracting a large and innovative talent pool. Some 10% of German FinTechs are located in Frankfurt, Munich and Hamburg each. German FinTechs' contribution to the real economy so far is limited: in total, they employ only 15,000-20,000 people.

— Around 40% of the German FinTechs offer either B2B or B2C services, while some 20% offer both. B2B FinTechs are partners of banks. In 2017, almost 90% of German banks reported that they are already cooperating or plan to cooperate with FinTechs. On a European level, some three-quarters of banks are cooperating with FinTechs given the innovative solutions they bring. For almost 60%, cooperation is seen as a tool to reach customers with innovative products ahead of the competition.

FinTechs most active in crowdfunding and payments

3

% share of German FinTechs in 2016



Sources: Federal Ministry of Finance, Deutsche Bank Research

— Use of B2C FinTechs is common, too. In 2017, one-third of the online active population tapped services of at least one FinTech firm. B2C FinTechs mainly offer different types of crowdfunding, followed by payment services.

— By 2016, German crowdfunding platforms had provided some EUR 320 m in financing (outstanding volume), the second largest figure after France in continental Europe's market of EUR 2.1 bn. However, the UK market is much larger with a volume of EUR 5.6bn.

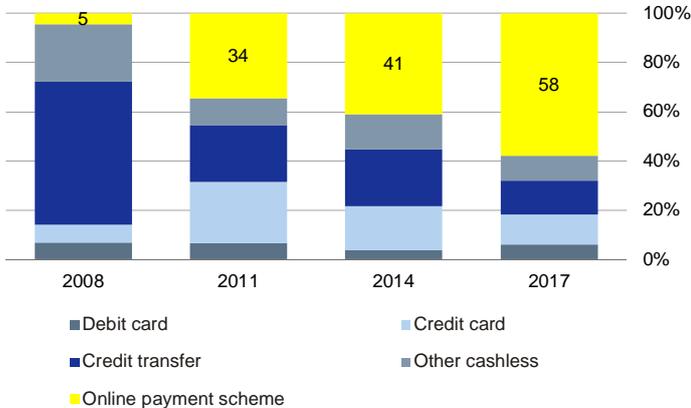


## German FinTechs on the rise

### How do German consumers pay for online purchases?

4

% share in total value of transactions



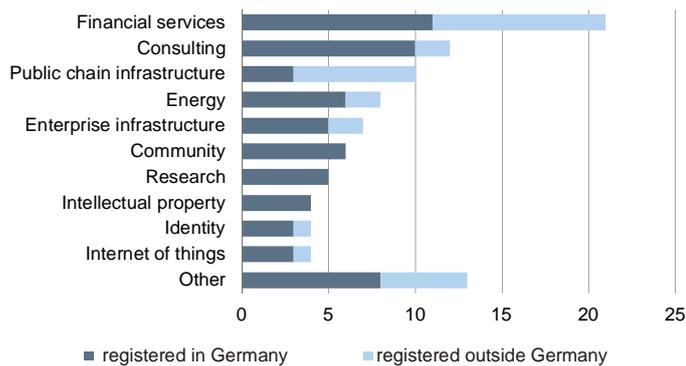
Sources: Deutsche Bundesbank, Deutsche Bank Research

- Of the total outstanding crowdfunding volume, crowdlending accounted for EUR 215m, a negligible amount compared with the EUR 2.4 tr in bank loans to German non-financial corporations and households
- When paying for internet purchases, consumers have fundamentally changed their habits. While they paid only 5% of their transactions (by value) via online payment schemes<sup>1</sup> in 2008, they now use them for 58% of their e-commerce bills. Online payment schemes only account for a share of 4% in total consumer payments, though.
- Online payment schemes offered by FinTechs or BigTechs – rather than banks – were the most popular way to pay for internet purchases, according to consumers polled in 2017. Most FinTechs that have actually made it into consumers' lives so far are/were backed by companies with existing large client bases (PayPal/ebay, payment via Amazon, paydirekt/German banks).

### Blockchain start-ups focus on financial services

5

Number of companies, January 2018



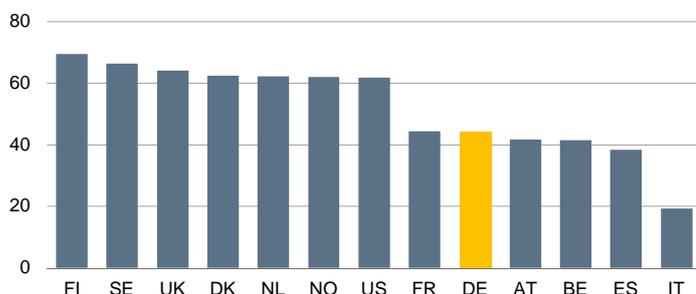
Sources: BlockchainHub, Bundesblock, Deutsche Bank Research

- Overall, contactless card payments are showing high growth, although starting from a low level (1% market share by value). Mobile payments account for an even smaller share in the total payment mix.
- Blockchain technology is one of the areas to watch for the future of payments. Indeed, among all blockchain start-ups in Germany, the biggest focus is on financial services, in addition to a broad range of other services. Most blockchain FinTechs are active in investment, payment, trading and exchange services. But there are also solutions for blockchain-based insurance and fundraising.
- Two-thirds of the blockchain start-ups that are active in Germany are also registered here. One-third of them are headquartered abroad, but have an operating team in Germany. The number of start-ups working exclusively on blockchain or other Web 3.0 solutions is growing, from 61 to 94 between October 2017 and January 2018 alone.

### Germany lags behind in digitalisation

6

Index value\*, 2017



\*Index range 0-100, 0 representing the worst and 100 the best outcome.

Sources: BDI, Deutsche Bank Research

- Germany has an active robo-advice landscape with some 40 robo-advisors in Q1 2018. Up from some EUR 650 m in 2016, German robo-advisors currently manage around EUR 1,700 m (with Scalable Capital accounting for 60%).
- Of the some 150,000 active robo-advisor users, young male individuals with a relatively high income account for the largest chunk.
- Germany lags behind internationally in terms of digitalisation. In a ranking of 35 industrialised countries, Germany ranks only number 17, just behind France. This is a significant shortcoming in a world where data-driven business models are becoming ever more important.

<sup>1</sup> Online payment schemes facilitate credit transfers from the customer's bank account (e.g. Sofort-Überweisung, paydirekt, giroipay). Alternatively, they settle payments within a proprietary network (e.g. PayPal) linked to the customer's bank account or payment card.



## German FinTechs on the rise

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- Recent data protection measures, such as PSD 2 and GDPR, are particularly relevant in terms of managing big data. German FinTechs can benefit from this by linking their innovative services to the existing banking infrastructure or by supplying software to banks.

Orçun Kaya (+49 69 910-31732, [orcun.kaya@db.com](mailto:orcun.kaya@db.com))

Heike Mai (+49 69 910-31444, [heike.mai@db.com](mailto:heike.mai@db.com))

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