

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 one of the most dynamic markets in the world. FinTechs use of future key technologies makes them important drivers of digital innovation in the established economy.

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. Germany is currently on the global average, but FinTech acceptance and adoption rates have increased within Germany and Europe in response to the global coronavirus pandemic. It has also helped accelerate the digitalization process, with more people turning to digital banking and payments.

Digital Infrastructure

The appropriate digital infrastructure is essential for FinTechs active in developing digital markets. Internet penetration levels in Germany are hovering around the 90 percent mark according to the Statista Digital Market Outlook 2022. The country also has a high share of online and mobile payment users. 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 2021, more than EUR 3.76 billion investment was made in the FinTech sector – making it the single biggest recipient of VC investment in the country. FinTechs in Germany now provide digital services along the entire financial value chain of companies of the B2B and B2C sectors.

FinTech in Numbers



FinTechs

>1,000

companies active in Germany



FinTech Adoption Rate

64%

take-up rate in Germany



Start-up Investment Level

EUR 3.76 billion

start-up investment in FinTech in Germany in 2021

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Market Opportunities

Germany's maturing FinTech market provides excellent opportunities for international actors in a number of market segments including payments, investment, retail banking, and insurance.

Current hot topics include embedded finance, sustainable and green finance as well the potential launch of the digital euro. FinTechs are major drivers of digitalization, making increased use of artificial intelligence and blockchain solutions.

Banking

Germany's banking sector secured the most FinTech investment in 2021, raising EUR 1.27 billion in investment capital in 22 rounds according to EY. Incumbent banks are increasingly turning to cooperations and partnerships with FinTechs. A number of FinTechs are also deploying "cooperation through acquisition" strategies.

Digital Payments

The global digital payments market is growing. Germany is home to the second-biggest digital payments market in Europe. Digital commerce represents the single biggest segment with EUR 4.91 billion of total 2022 transaction value and is forecast to rise to EUR 7.23 billion in 2026. FinTech plays a decisive role in the delivery of digital payment services – whether in the realm of digital commerce or mobile POS payments.

E-Commerce

The Statista Digital Market Outlook 2022 reports that Germany has the highest number of digital commerce users in Europe. Revenue in the e-commerce market is projected to reach EUR 126.2 billion in 2022, making the country the fifth-biggest digital commerce market internationally. Domestic e-commerce market volume is forecast to rise to EUR 168.6 billion in 2025, corresponding to CAGR of ten percent for the period 2022 to 2025.

InsurTech

Germany's InsurTech market continues to grow at pace 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. The "New Players Network" lists 195 InsurTechs – including digital insurers, contract managers, claims adjusters, and comparison platforms – currently active in the country. InsurTechs are intensifying their footprint in the incumbent value chain; with rising investment indicative of increased interest among both domestic and international investors. Digitalization and sustainability represent key opportunities and challenges for the insurance industry. According to a recent BearingPoint study, 71 percent of Germans believe that insurers should promote sustainable behavior with their products. This trend is reflected in the neighboring German-speaking countries.

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. BaFin offers transparent, reliable operations and communication in English to support international companies.

Are FinTechs subject to special regulation?

Germany has a regulatory level playing field. Some FinTechs – subject to their business model and structure – may be subject to BaFin supervision. Others need only comply with the requirements of the Industrial Code. European Union passporting allows companies to access the entire EU market of 320 million consumers.

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/en

€300 bn

Digital payment market volume in Germany 2025

€4,300

Average digital payment transaction value by user in Germany 2025

€30 k

Average neobanking transaction value per user in Germany 2025

€255,000

Average alternative lending transaction volume by user in Germany 2025

Source: Statista Digital Market Outlook 2022

FinTech Cooperation

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, backed by the Federal Ministry for Economic Affairs and Climate Action (BMWK), 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) that provides a platform to banks, FinTechs, academics, start-ups, policy makers, and administrators.

Bitkom

Bitkom is Germany's digital industry association. The association's "Digital Banking and Financial Services" 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.

Digital Finance Forum

Established in 2017, the Digital Finance Forum acts as a platform for exchange between the Federal Ministry of Finance and experts from the digital finance market. Selected experts contribute their perspectives and experiences from the German financial world. Members meet in expert groups focusing on payments, investment, retail banking, and insurance.

Digital Hub Initiative

A series of regional digital hubs have been established in Germany as part of an initiative of the Federal Ministry for Economic Affairs and Climate Action. Start-ups, science, SMEs, industry, and local administrations join together to become centers of digital transformation.

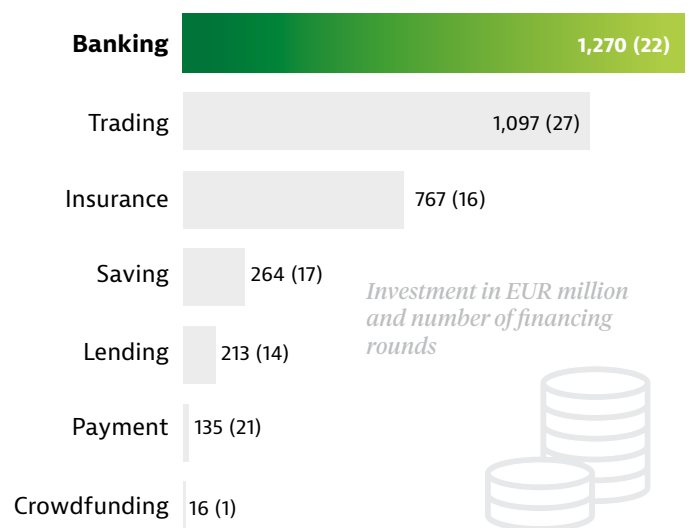
The cities of Berlin and Frankfurt are home to one FinTech hub respectively and the cities of Cologne and Munich both have an InsurTech hub. These hubs offer excellent opportunities for start-ups to network with market incumbents. Other strong FinTech clusters are established in the cities of Hamburg and Stuttgart.

→ www.de-hub.de/en

FinTech Internationalization

Almost three quarters of FinTechs in Germany work using highly scalable business models (online platforms and software-as-a-service solutions). A comparable number of FinTechs active in Germany also plan to internationalize their service provision, with the European Union being the focal point of these activities. The European Union provides companies with a harmonized legal system and a Single Euro Payments Area (SEPA) for simplified bank transfer activities.

Venture Capital Investment in FinTech 2021



Source: EY Start-Up Barometer Deutschland, January 2022

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