



German FinTechs and traditional banks: Friend or Foe?

Passion to Perform





- “Non-bank, technology-driven providers of financial services, built on digitalised, web- and data based processes”*
- FinTech company characteristics
 - Start-up
 - Established (non-bank) firms with large network (e.g. internet platform, telecom company, large retailer)
- FinTech business strategies
 - New service (e.g. crowdfunding) or existing market (e.g. payments)
 - End-to-end service or part of a value chain
 - Front-end or back-end service
 - Relationship with incumbents: competition or cooperation

*Source: Deutsche Bank Research



Agenda



1

FinTechs in Germany

2

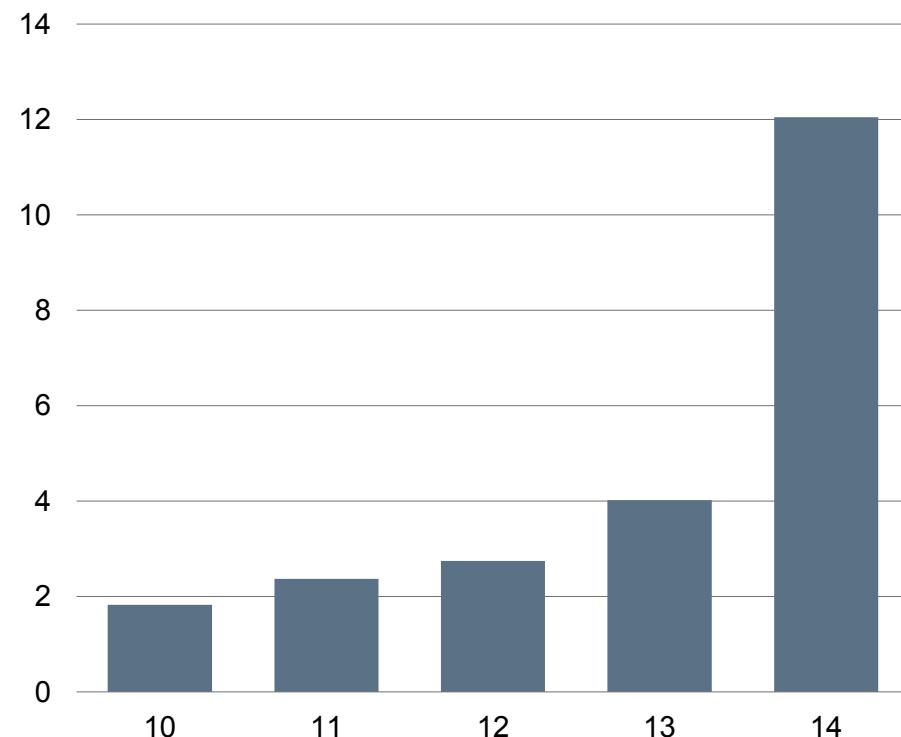
FinTech versus „Fin“ ?

FinTechs are on the rise!



Global FinTech Investment

USD bn.



Sources: CB Insights, Deutsche Bank Research

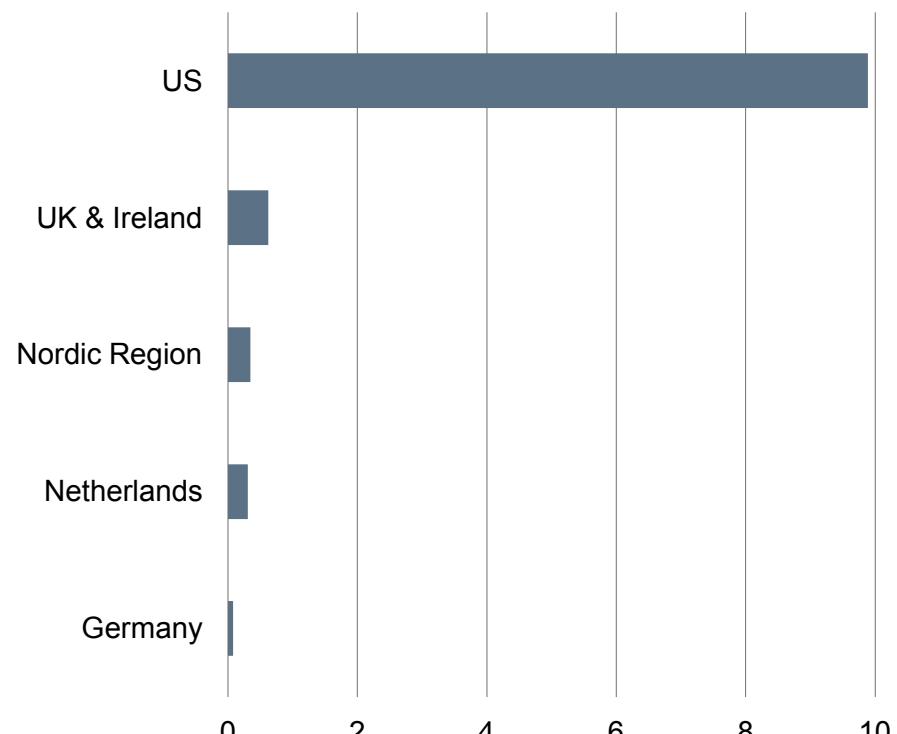
- Technology and the Internet have a radically increasing role in financial services
- Investments into FinTech startups quadrupled in 2014
 - USD 12 bn FinTech investment in 2014, up from USD 1.8 bn in 2010
- Significant mergers and acquisitions activity by established FinTech businesses

US FinTech investment spearheads



Investment in FinTech by region

USD bn. in 2014



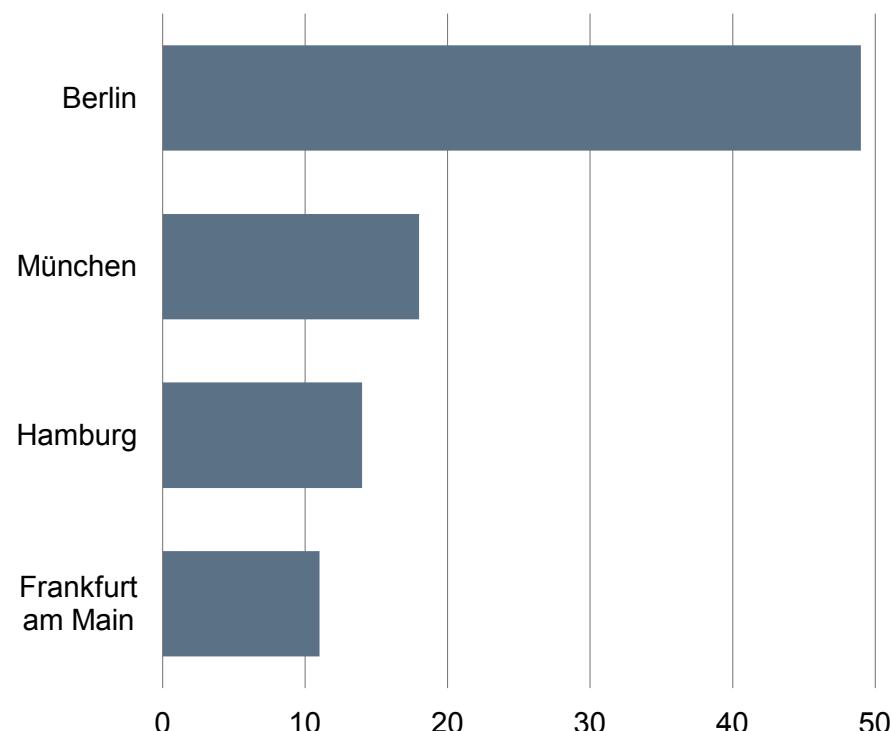
Sources: Accenture, Deutsche Bank Research

- US FinTech investment spearheads globally with a volume of almost USD 10 bn in 2014
- Despite the uptick in recent years, Europe lags behind in FinTech investment.
- In 2014:
 - USD 623 m. investment in the UK and Ireland
 - USD 345 m. investment in Nordic regions
 - USD 85 m. investment in Germany

Berlin is the German FinTech centre



Number of FinTechs in Germany*



- 139 FinTech-firms with their headquarters in Germany in 2014
- In terms of number of FinTechs Berlin is the leading city in Germany
 - Almost half of the FinTechs are located in Berlin
 - The financial centre of Germany; Frankfurt hosts only 11 FinTechs

*there are 47 FinTechs in other cities in Germany.

Sources: LSP Digital, Deutsche Bank Research

Lending and Payment FinTechs have the largest share among FinTechs

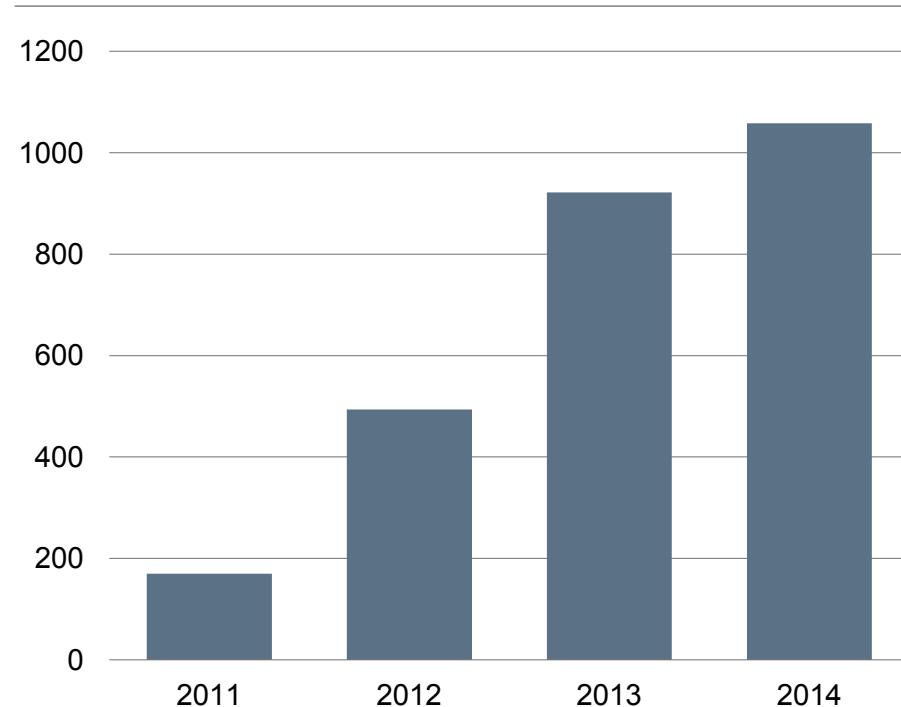


- FinTechs are a new breed of alternative lenders
 - Around one fourth of FinTech startups in Germany does direct lending
 - Another 17% does crowdinvesting
- FinTechs offer online based payment services
 - 27% of FinTech startups are alternative payment providers
- Other FinTechs active in:
 - Insurance, ID verification, Online Shopping & Gastronomy

Increasing number of projects funded via FinTechs, yet so far they have a small role for the real economy



Number of projects successfully funded via German crowdfunding platforms



- Small role of FinTech start-ups for real economy “for now”
- German FinTechs employ around 2,000 employees in total
- On average 11 employees per FinTech

Sources: Für-Gründer.de Crowd Funding Monitor, Deutsche Bank Research



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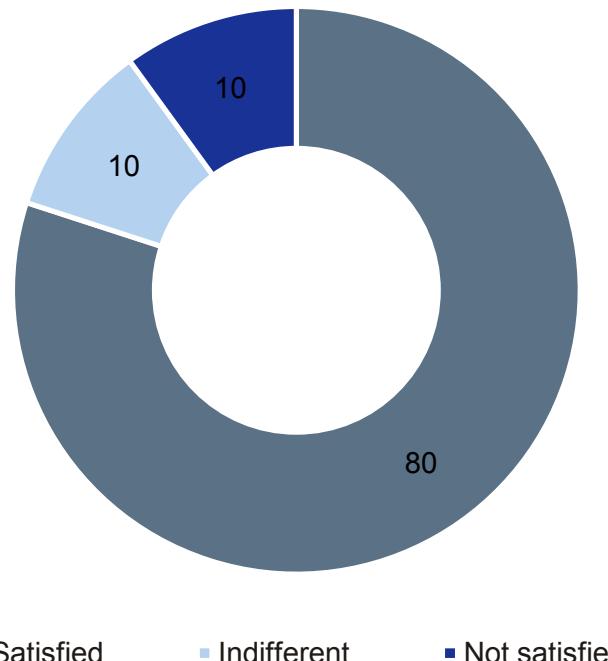
FinTech versus „Fin“ ?

Banks and Fintechs are interconnected



German banks cooperate with FinTechs

% of banks that cooperate with FinTechs



- 56% of German banks cooperate with Fintechs for their digital strategy
- Of these, 80% are satisfied with their cooperation

Sources: Die Welt, Deutsche Bank Research

FinTechs vs. “Fins” ?

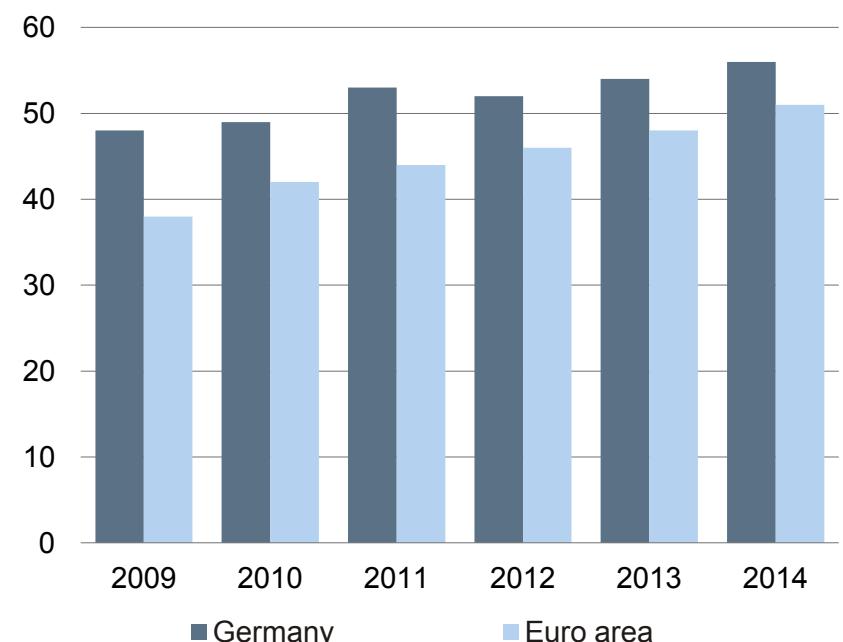
Use of technology



- Banks (incumbents) pioneered IT for financial services
 - Paper-based work substituted by electronic/automated processes
 - Interaction with clients via physical and digital channels
- FinTechs
 - Competitive edge by consequent use of digital business models, lower cost
 - Use innovative IT for financial intermediation and transaction services
 - Spot unserved client needs
- More competition: innovation, services, pricing

Online banking: established service

Persons using online banking as % of 25-64 year olds who used the internet in previous 3 months



Sources: Eurostat, Deutsche Bank Research

FinTechs versus “Fins” ?

How much finance, how much regulation?



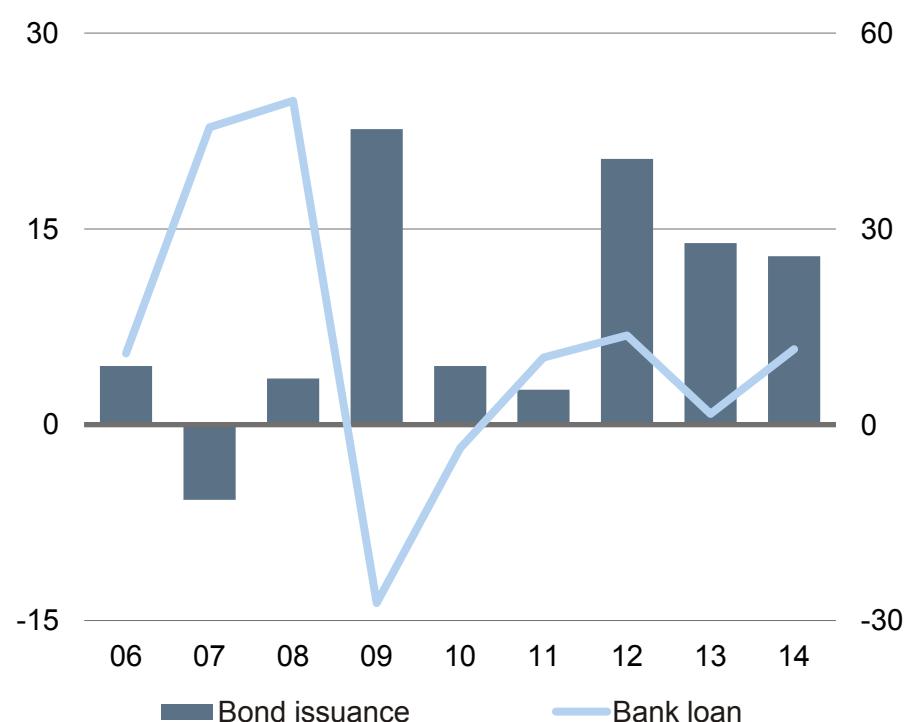
- FinTech business volume **very** small compared to incumbent providers (even in payment services) – so far
- Will FinTechs be able to scale up their business?
 - Attractiveness to mass market (retail and business clients)?
 - Processing capabilities
 - Customer service
- Regulation: how much regulatory arbitrage?
 - Up to date, many FinTechs are not supervised like established financial service providers
 - Can FinTechs sustain their business models if regulators impose existing financial regulations on them (“same risk- same regulation”)?
- Competition on
 - Expertise in financial risk management
 - Funding cost: funding loans by deposits only allowed with banking licence

Can FinTechs be an alternative? Spotlight on corporate funding and payments



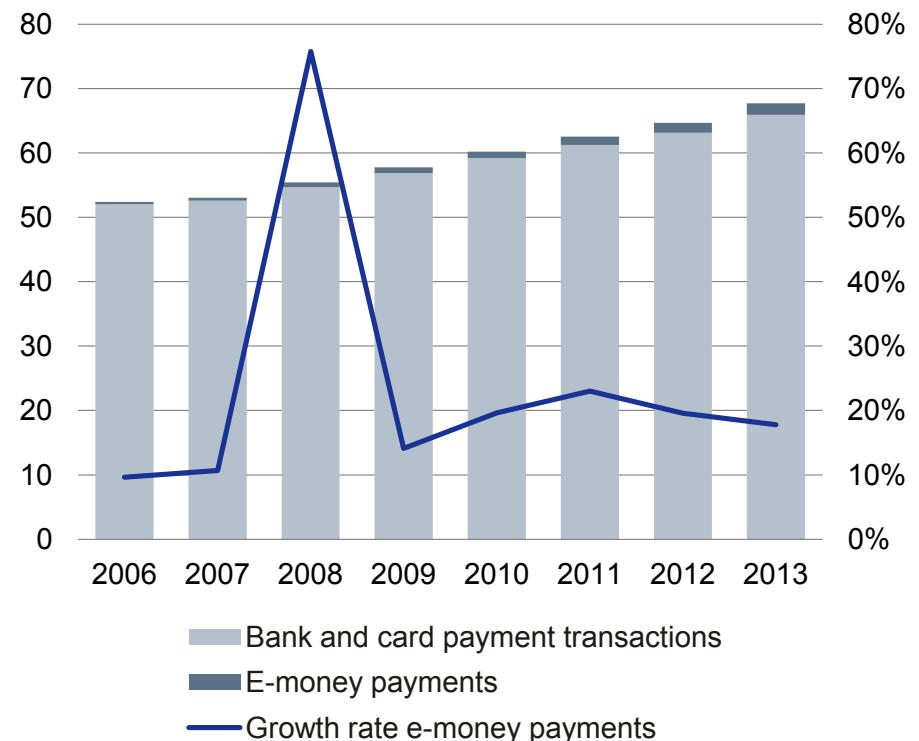
Corporate funding in Germany

EUR bn, Net bond issuance (left),
EUR bn, Bank loan flows (right)



Cashless payments in euro area

Number of transactions in billions (left),
growth of e-money payments in % yoy (right)



Sources: ECB, Deutsche Bank Research

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Contact



Orçun Kaya, Ph.D.
Deutsche Bank Research
Banking, Financial Markets,
Regulation

Taunusanlage 12
D-60325 Frankfurt/Main
Phone: +49 69 910-31732
E-mail: orcun.kaya@db.com
Internet: www.dbresearch.com

Heike Mai
Deutsche Bank Research
Banking, Financial Markets,
Regulation

Taunusanlage 12
D-60325 Frankfurt/Main
Phone: +49 69 910-31444
E-mail: heike.mai@db.com
Internet: www.dbresearch.com

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