

THE GERMAN FINTECH MARKET

A RETROSPECTIVE
AND PREDICTIVE
ECOSYSTEM REPORT

DUTCH PROSPECTS
AND OPPORTUNITIES

FinTech Consult & Contextual Solutions

Preview

The complete study will be presented and available for
download on 17 February 2023

Preview

The complete study will be presented in Amsterdam on 17 February 2023 and will from then on also be available for download



Rijksdienst voor Ondernemend
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Introduction

Germany is a significant FinTech market and among the largest, worldwide. Many foreign B2C and B2B FinTech companies have started operations in Germany, attracted by Germany's sizeable retail market of 83 M citizens, its 3.5 M small-and-medium-sized enterprises¹ (the so-called "Mittelstand"), and its large number of domestic financial institutions, including 1,500+ banks.²

European passporting rules make it easier for FinTech start-ups to explore new jurisdictions as they grow. Among all European markets, Germany remains attractive for European FinTechs due to its position, size, and economic power. However, due to its history, size, and culture, specific challenges and opportunities await the companies entering the market, even those coming from neighboring countries.

In continental Europe, the Netherlands is another one of the up-and-coming FinTech hubs. However, due to the limited market size, local FinTechs with attractive value propositions must quickly start looking for expansion opportunities. The Ministry of Finance in the Netherlands conducted a study on the Dutch FinTech sector and its growth opportunities in 2019 to reveal the status quo. At that time, it was concluded that it faced a challenge in scaling up abroad.

The FinTech markets in Germany and the Netherlands are booming and share some characteristics. Nevertheless, as a FinTech, it is not easy to use one country's experience and best practices to successfully start in another. Despite many contacts and joint activities between German and Dutch FinTech hubs and associations since 2016,³ it is still challenging to maintain a comprehensive overview of the mutual FinTech landscapes, including major trends, opportunities, and challenges.

Therefore, [FinTech Consult](#) and [Contextual Solutions](#) were commissioned to prepare a study about the German FinTech ecosystem in Q3 2022 on behalf of the Netherlands Enterprise Agency (RVO) and the Netherlands Business Support Office (NBSO) Frankfurt am Main.

The study uses unique market insights, research, and interviews with German FinTech ecosystem stakeholders while shedding light on the whole ecosystem. The primary goal of the analysis is to provide a market overview. In addition, the study aims to create a source that:

- Serves as an all-in-one resource for the status quo and trends, and in the German FinTech ecosystem,
- highlights the regional focal areas and relevant stakeholders,
- provides an overview of the investment trends in Germany, specific related to FinTech,
- addresses the opportunities and the challenges for foreign FinTech companies, with a particular Dutch market focus, when accessing the German market, and
- formulates recommendations for the internationalization of Dutch FinTech companies towards Germany.

The authors trust that the study will help Dutch FinTechs gain a foothold in the German market and
Dezember 2022

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¹ BVMW, 2022, [URL](#)

² Bundesbank, Bank office statistics in 2021, [URL](#)

³ FinTech Consult, Joint Dutch/German FinTech Matchmaking Events, November 2016, [URL](#)

Executive Summary

The German FinTech market is the strongest candidate for the “EU FinTech Hub” and is growing as we speak. The market offers an extensive playground, stability, economic consistency, and an untapped digital finance potential.

The particularities of the German market create both opportunities and challenges for newcomers, which was intended to be identified through this study. Starting with exploring the German market and the German FinTech ecosystem, this study offers a deep dive into the digital market atmosphere. First, newcomers are recommended to get informed about the market (chapter 1) and then understand the cultural and financial dynamics (chapter 2) along with the current developments (chapter 3). Only then the specific market entry recommendations (chapters 2 and 3) will make sense.

The study provides a general overview and recommendations for all foreign FinTech companies intending to expand to Germany. Nonetheless, as the report is prepared specifically for Dutch FinTech companies, the study includes an additional Dutch FinTech focus, exploring differences between the neighboring ecosystems (chapter 2) and identifying synergies (chapters 2 and 3).

Germany is one of the world's largest, most vibrant, and attractive start-up ecosystems. There are more than 70,000 start-ups in highly specialized sectors, including almost 1,000 active FinTechs. The FinTech sector in Germany planted its first seeds in the early 2010s. Many FinTechs are now in the scale-up phase, step-by-step becoming profitable. Among them are 13 unicorns. In 2021, about €6 B was invested in German FinTechs – a new funding record. Germany has a diverse domestic ecosystem with insurance, payment & remittance, and blockchain & digital assets being the three strongest verticals in terms of the number of start-ups and banking, payment & remittance, and capital markets in terms of valuation. M&A activity has been high over recent years. Neobanks and -brokers are popular among younger people. Cash is still widely used in Germany, but cashless payments are rising. The German regulatory authority BaFin strictly applies its principle of 'same business, same risks, same rules' to all financial institutions, including FinTech start-ups. On the other hand, BaFin's website is an excellent information source on applicable EU and German legislation for the different business verticals related to FinTech.

Establishing operations in Germany, Dutch FinTechs need to be aware of certain market specifics. Despite the German and the Dutch market sharing various similarities, minor and major differences related to business culture, consumer behavior, ecosystem infrastructure and regulation exist. Overall, market conditions in Germany are advanced but lagging behind the Netherlands. Understanding the impact of German market specifics on the business strategy as well as related opportunities and challenges is crucial. This also applies to localization. The German market provides different hubs with varying qualities that FinTechs should align with their own needs (e.g., network, initiatives, local industries etc.). When entering the German market, Dutch FinTechs should consider collaborating with a bank to get access to existing licenses and customers. Additionally, the sizable German SME segment can be a promising starting point. Being under increasing pressure to digitalize and still relying greatly on traditional financial services, German SMEs can be considered a promising target group.

Germany is a sizeable market in terms of its potential, though it is particular in terms of market needs, as the local consumers and companies have different expectations and needs compared to other markets. The historical and cultural differences make it harder for foreign financial service providers to find B2B or B2C pilot customers and raise interest. Although we have been observing a positive digital finance and start-up trend in Germany in the aftermath of both Brexit and the pandemic, the recent developments, including the Russian invasion, economic turmoil, inflation, and start-up valuation downturns, have changed the perception and priorities of the locals. In light of the insolvency of a significant market player (Nuri) and the many layoffs that were announced in Q3 and Q4, market players are less experimental and cautious. They are preparing for a "tough winter." Considering the more challenging economic conditions and the changing customer needs, new market players will need to be more prepared and resilient. In this scope, newcomers are expected to examine the local success factors, adjust to current economic conditions, double-check their assumptions with their ideal client base, and look into some of the expansion strategies that have proven successful in the market. Many FinTech verticals, such as embedded finance, BaaS, and open finance, seem to be "evergreen" for the market. Additionally, some topics, such as financial education and inclusion, are underserved domestically, and the demand is likely to grow especially considering the growing expat and immigrant base Germany intends to attract in the upcoming

years. More information about the current and forthcoming trends is included under chapter 3, along with a German market compatibility checklist, which intends to serve as a base for both newcomer and existing foreign FinTechs in the German market.

Close Up: German Market Opportunities

Throughout the study, various opportunities for Dutch FinTechs in the German market are outlined. First, they derive from the **market size and its FinTech-friendly ecosystem**:

- The population of 83 M makes Germany the largest market in Europe, demonstrating its potential for FinTechs to offer B2C solutions and grow their user base.
- With around 3.5 M enterprises, Germany also offers a huge opportunity for providing B2B solutions, particularly for the comparably traditional SME sector.
- The sizeable German banking sector, consisting of 1,445 financial institutions, demonstrated openness towards FinTech solutions in recent years and – in turn – can offer a regulatory umbrella for FinTechs, and access to customers.
- Despite German consumers being less digitally savvy, FinTech solutions are increasingly understood and accepted.
- Germany offers several different hubs providing FinTechs with knowledge, talent, network, funding, and initiatives to boost innovation.

Additional opportunities are arising from the **excellence of Dutch FinTech** that can be valuable when entering the German market:

- The Dutch FinTech ecosystem is among the most advanced worldwide, enabling a level of innovation that provides crucial advantages in international competition.
- This shows in the remarkable number of globally renowned products Dutch FinTechs have created, also demonstrating the entrepreneurial skills needed to succeed in the German market.
- Having established an almost cashless society, the Netherlands is far more advanced than Germany. With the digitalization of payments being on the rise in Germany, Dutch solutions can potentially be rolled out in the German market in the future (e.g., the introduction of the digital euro).

Lastly, **recent market trends** are reinforcing the factors mentioned above and are creating additional opportunities:

- With German SMEs, banks, and public institutions lagging in digitalization, the pressure to digitalize will increase over the following years to preserve competitive advantages. Consequently, digitalization initiatives and budgets are expected to rise.
- The Covid-19 pandemic and economic turmoil caused by Russia's invasion of Ukraine are creating additional pressure to digitalize and improve business efficiency.
- The current German government is increasingly aware of the importance of innovation which is reflected in several initiatives that aim to strengthen local start-up and FinTech ecosystems.
- Despite the FinTech market having reached a state of maturity in the past years, there are still segments with relatively low competition and increasing demand. Those include B2B solutions for SMEs, embedded finance, open finance, financial education, sustainable banking, blockchain and digital assets as well as cybersecurity and fraud prevention.

The opportunities and challenges laid out above and throughout the study should be assessed on a case-by-case basis as the size of the German market, and the cultural patchwork of the German society (increasing immigration, East-West dynamics, historical patterns) make it hard to identify standard and de facto prospects. However,

- asking the right questions before entering the market (chapter 3),
- understanding the culture and respecting the customs (chapters 1 and 2), and
- integrating through localization (chapters 2 and 3)

would give beginners an advantage in the local market.

After digesting the study, FinTech companies interested in the German market are advised to test their readiness and compatibility through the checklist provided in chapter 3.