

THE ALTERNATIVE PAYMENTS LANDSCAPE IN GERMANY



by **docomo** digital



Digital wallets seek to overtake Germans' love for cash

Despite its reputation as a high-tech country, German consumers are heavy cash users.

The people in the European Union's biggest economy by GDP are not just low-spenders with a reputation for thrift, they're also incredibly leery of debt and anything that might impact their personal privacy. It's an attitude that potentially stems from Germany's difficult history of hyper-inflation during and after the Weimar Republic, as well as their positive perception of the benefits of cash. In 2018, Bundesbank reported that 88% of Germans strongly rejected the abolishment of cash, which many said was easier to control in terms of spending and data privacy.¹

And despite the acceleration of e-commerce in Germany, cash remains extremely relevant. There is a general belief in Germany that "card payments" are related to debit cards, and institutions uphold this: most local "credit cards" don't allow consumers to accumulate long-term debt, and are designed to deduct balances from users' accounts.² In a 2019 McKinsey finding, this cultural attitude has resulted in more than 67% of transactions being cash-based,³ with most Germans carrying three times much cash in their wallets as their French counterparts.⁴

That being said, German spending habits are definitely changing, driven by payment innovations (such as e-wallets and superapps) and factors like COVID-19. Mobile commerce is already "firmly established", accounting for 33% of online transactions,⁵ and its related payments industry is expected to reach \$248.3 billion in value by 2025.⁶

PayPal casts a wide net over Germany

Within the mobile payments industry, digital wallets are especially popular, comprising a quarter of all digital transactions, compared to the 10% claimed by credit cards, which are generally viewed with suspicion by debt-wary Germans.⁷ Digital wallets have been forecasted by JP Morgan to grow by an estimated CAGR of 22.5% annually, thanks to rising smartphone penetration.⁸ There are suggestions that the increasing prevalence of digital wallets could also have a positive impact on debit and credit cards, as many available options allow users to link their cards and accounts to apps in order to load credit.⁹

The biggest name in e-wallets is American fintech giant, PayPal, whose 15-year history in the country has helped it build a strong reputation – an important aspect among German customers. Currently, PayPal accounts for 20% of total online payments,¹⁰ and is nearly synonymous with the digital wallet concept all across Europe. In Germany alone, 84% of all digital wallet transactions are done via PayPal.¹¹

PayPal's popularity is likely the result of the EU's highly fragmented, yet intertwined market. Most credit and debit cards issued in Germany are unable to function outside its borders, making payment solutions by PayPal—and American card companies, Visa and Mastercard—highly desirable among the EU's well-travelled populations. PayPal's market share is likely to continue to grow as the company focuses on expanding its reach through tie-ups with other wallets like Google Pay and Apple Pay, as well as its expansion into the pocket of international tourists in Asia and the Americas. Currently, German PayPal customers can also link the digital wallet directly to their bank accounts to enable instant transfers via their phones with merchants or other consumers.¹²

¹ EmerchantPay. Online payments in Germany. Available online at: <https://emerchantpay.com/insights/online-payments-germany>

² BBC Worklife. Will coronavirus change Germans' love of cash? Available online at: <https://bbc.com/worklife/article/20200520-will-coronavirus-change-germans-love-of-cash>

³ McKinsey & Company. A perspective on German payments. Available online at: <https://mckinsey.com/~/media/McKinsey/Industries/Financial%20Services/Our%20Insights/A%20perspective%20on%20German%20payments/A-perspective-on-German-payments-vF.ashx>

⁴ EmerchantPay. Online payments in Germany. Available online at: <https://emerchantpay.com/insights/online-payments-germany>

⁵ J.P.Morgan. Merchants must convince increasingly cautious German shoppers. Available online at: <https://jpmorgan.com/merchant-services/insights/reports/germany-2020>

⁶ Business Wire. The German Mobile Wallet & Payment Market to 2025: Expecting to Grow at a CAGR of 9.2% to Reach \$248.3 Billion - ResearchAndMarkets.com. Available online at: <https://businesswire.com/news/home/20190207005333/en/The-German-Mobile-Wallet-Payment-Market-to-2025-Expecting-to-Grow-at-a-CAGR-of-9.2-to-Reach-248.3-Billion---ResearchAndMarkets.com>

⁷ J.P.Morgan. Merchants must convince increasingly cautious German shoppers. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/germany-2020>

⁸ J.P.Morgan. E-commerce payments trends: Germany. Available online at: <https://www.jpmorgan.com/europe/merchant-services/insights/reports/germany>

⁹ J.P.Morgan. Merchants must convince increasingly cautious German shoppers. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/germany-2020>

¹⁰ J.P.Morgan. E-commerce payments trends: Germany. Available online at: <https://www.jpmorgan.com/europe/merchant-services/insights/reports/germany>

¹¹ The Paypers. The meteoric rise of e-wallets in Asia and Europe. Available online at: <https://thepayers.com/thought-leader-insights/the-meteoric-rise-of-e-wallets-in-asia-and-europe--1241034>

¹² J.P.Morgan. E-commerce payments trends: Germany. Available online at: <https://www.jpmorgan.com/europe/merchant-services/insights/reports/germany>

A small, concentrated market for payments

Most alternative payment solutions in Germany are unable to process their own payments, and rely on big American firms like Visa and Mastercard to enable mobile solutions. Take for instance, OEM-based wallets like Google Pay and Apple Pay, which are by far the most popular OEM-backed wallets thanks to their ubiquity among smartphone users in Germany, where handset penetration rate hovers around 90%.¹³

Apart from popular services, Apple Pay and Google Pay, wearable tech firms Garmin Pay and Fitbit Pay¹⁴ have also started operations in the country to enable contactless payments through their fitness trackers and digital watches. Both Garmin and Fitbit have integrated their wallets with most banks, as well as the Google Pay and Apple Pay platforms, and transportation services across the country.

Despite the inroads made by OEM-based wallets among German shoppers, their growth is largely dependent on the existence of debit and credit cards, as well as these platforms' partnerships with traditional banks and card companies like Visa and Mastercard.¹⁵

Conversely, traditional institutions like Commerzbank and Sparkasse are also reliant on Google and Apple Pay to provide mobile payment solutions to their customers.¹⁶ These close ties have resulted in an extremely close-knit ecosystem, one in which American card companies dominate the EU's financial markets (much to the consternation of the European Central Bank [ECB])¹⁷ due to their cross-border functionality.

Few traditional banks have made significant strides in terms

of e-wallet innovations, with the exception of Deutsche Bank, which launched its "Yunar" app in 2018 to provide a platform for loyalty programmes, though little has emerged in terms of its promised e-wallet.¹⁸ Neobanks like Swedish Klarna and German N26, have also relied on partnerships with Google and Apple Pay for their digital wallet functionality. It's possible digital wallet functions may emerge later, but currently neobanks in Germany are focused on digitalising traditional banking services—as is the case with challenger bank N26—or innovative offerings like Klarna's "pay later" feature or its Sofort-enabled bank transfer solution.

Telcos in Germany's highly developed telecommunications industry has also had some offerings within the nation's digital wallet industry, such as Telekom Germany's now-defunct MyWallet offering.¹⁹

However, where telcos could see a lot of growth is in the carrier billing space, which could prove to be the answer to Germans' low credit card use. Germany's 115.2 million mobile subscribers are split across four major operators, the largest being Telekom Germany (33%) and Vodafone (27.8%).²⁰ Carrier billing isn't new to Germans, as telcos have spent recent years inking partnerships to enable their customers to bundle payments for OTT and digital content with companies like Apple²¹ and Spotify,²² or even physical goods from Amazon.²³ There could be another major shift as more content providers begin to provide ad-hoc or subscription-based access to their content. For instance, sports lovers in Germany are now able to pay to access livestreams from OTT sports content provider DAZN via their phone bills.²⁴

¹³ Statista. Forecast of the smartphone user penetration rate in Germany from 2018 to 2024. Available online at: <https://www.statista.com/statistics/568095/predicted-smartphone-user-penetration-rate-in-germany>

¹⁴ Pocket-lint. What is Fitbit Pay, how does it work, and which banks support it? Available online at: <https://www.pocket-lint.com/fitness-trackers/news/fitbit/142115-what-is-fitbit-pay-how-does-it-work-and-which-banks-support-it>

¹⁵ Banking Hub. Mobile payments in Germany—a heterogenous market. Available online at: <https://www.bankinghub.eu/themen/mobile-payments-in-germany>

¹⁶ iMore. Apple Pay now available to Sparkasse and Commerzbank customers in Germany. Available online at: <https://www.imore.com/apple-pay-now-available-sparkasse-and-commerzbank-users-germany>

¹⁷ European Central Bank. On the edge of a new frontier: European payments in the digital age. Available online at: <https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201022~d6611be97.en.html>

¹⁸ Deutsche Bank. Deutsche Bank launches "Yunar" app. Available online at: https://www.db.com/news/detail/20181105-deutsche-bank-launches-yunar-app?language_id=1

¹⁹ Deutsche Telekom AG. Deutsche Telekom will not pursue MyWallet. Available online at: <https://www.telekom.com/en/media/details/deutsche-telekom-will-not-pursue-mywallet-443250>

²⁰ Telemedia Online. Germany presents massive carrier billing opportunity, says study. Available online at: <https://www.telemediaonline.co.uk/germany-presents-massive-carrier-billing-opportunity-says-study/>

²¹ Tech Crunch. Apple Rolls Out Carrier Billing For iTunes, Starting In Germany With O2. Available online at: <https://techcrunch.com/2015/10/27/apple-finally-rolls-out-carrier-billing-for-itunes-starting-in-germany-with-o2/>

²² Finextra. Spotify enlists Boku for carrier billing in Germany and Italy. Available online at: <https://www.finextra.com/pressarticle/64246-spotify-enlists-boku-for-carrier-billing-in-germany-and-italy>

²³ Telemedia Online. Germany presents massive carrier billing opportunity, says study. Available online at: <https://www.telemediaonline.co.uk/germany-presents-massive-carrier-billing-opportunity-says-study/>

²⁴ Digital TV Europe. DAZN launches direct carrier billing in Germany and Switzerland with Telefónica and Swisscom. Available online at: <https://www.digitalteurope.com/2020/06/10/dazn-launches-direct-carrier-billing-in-germany-and-switzerland-with-telefonica-and-swisscom/>



EU drives German fintech growth

Digital wallet operators are considered "e-money institutions", and are supervised by Germany's Federal Financial Supervisory Authority (or BaFin). Fintechs are regulated depending on the business model they choose to pursue, with those directly involved with managing money requiring licensing.²⁵ That being said, Germany doesn't have one, single fintech regulator, neither does it have a single body charged with driving innovation in the fintech space, as is the case in places like South Korea or the United Kingdom.

Instead, the most influential voice for fintech developments in Germany (and the wider region) is the European Union, which has been the biggest proponent of fintech-related regulation and innovation. In September 2020, the EU launched its follow-up to the landmark 2018 Fintech Action Plan.²⁶ Among the initiatives, the EU is driving initiatives like open banking, digital and instant payment solutions, and the European Payments Initiative (EPI) in an effort to make the payments market more competitive and accessible, while also decreasing the dominance of private, international companies like Visa, Mastercard, and PayPal.

The EPI, in particular, will open up benefits for consumers by "unifying and harmonising pan-European payment solutions" across platforms such as digital wallets and P2P services.²⁷ In Germany itself, the EPI could make cross-border payments easier, thus opening up opportunities for new digital wallet operators to enter the market.

However, cultural preferences are likely to have a significant impact on the development of digital wallets. As reported by JP Morgan, options like direct debit and open invoicing are becoming increasingly popular among Germans. In particular, open invoicing, buy-now-pay-later option, is already set to overtake digital wallets in the next five years with a forecasted 35% of the payments market share.²⁸ Open invoicing leans heavily into Germans' preference for testing out a purchase before paying for it, and the nation's robust logistics network. But, for the moment, digital wallets are experiencing their moment in the spotlight thanks to their ability to seamlessly bridge the gap between German's love for cash and the digital future.

A sampling of popular e-wallets across markets and their fees

PayPal's business customer charge in Germany is 2.49% plus \$0.42 per transaction. For sellers, fees are charged based on monthly transaction volumes. For transactions up to \$2,370, the charges total 2.49% + \$0.42. The percentage fee drops with higher transaction sizes, although the \$0.42 remains as a fixed fee.²⁹

Top e-wallets: **Apple Pay, Google Pay and Visa PayWave**³⁰

²⁵ Global Legal Insights. Fintech 2020 | Germany. Available online at: <https://www.globallegalinsights.com/practice-areas/fintech-laws-and-regulations/germany>

²⁶ Freshfields Bruckhaus Deringer. EU unveils the Fintech Action Plan 2.0 – with financial innovation at its heart. Available online at: <https://digital.freshfields.com/post/102gfk6/eu-unveils-the-fintech-action-plan-2-0-with-financial-innovation-at-its-heart>

²⁷ Finextra. A new vision of payments: What is the European Payments Initiative? Available online at: <https://www.finextra.com/blogposting/19519/a-new-vision-of-payments-what-is-the-european-payments-initiative>

²⁸ J.P.Morgan. Merchants must convince increasingly cautious German shoppers. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/germany-2020>

²⁹ Ebayfeescalculator. DE PAYPAL FEE CALCULATOR. Available online at: <https://www.ebayfeescalculator.com/de-paypal-fee-calculator/>

³⁰ Comscore. Mobile Contactless Payments Rise to the Centre as Mobile Device Focus Grows. Available online at: <https://www.comscore.com/Insights/Blog/Mobile-Contactless-Payments-Rise-to-the-Centre-as-Mobile-Device-Focus-Grows>

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DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores and payment providers in both developed and emerging markets around the world. We solve for the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. With teams based in 15 countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, e-commerce, and productivity application providers.

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