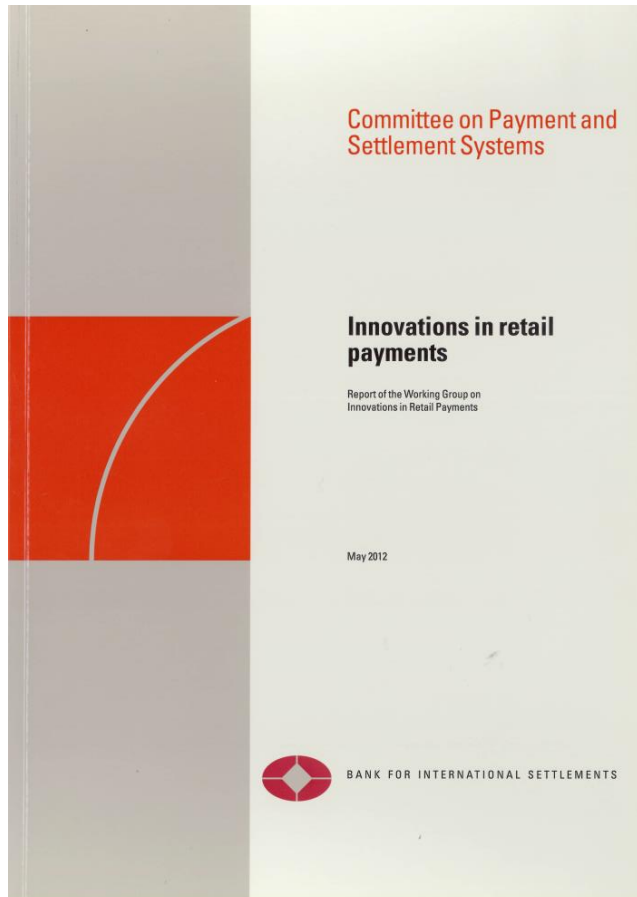


# **FinTechs as a catalyst for improving payment services**

Heike Winter, Retail Payment Policy, Deutsche Bundesbank  
Annual Global Conference of the European Banking Institute  
Frankfurt, 28 October 2016

# Worldwide trend: „Non-Banks“ as a driver for innovation in payments



Report from the BIS  
Committee on Payments and Market  
Settlement Systems

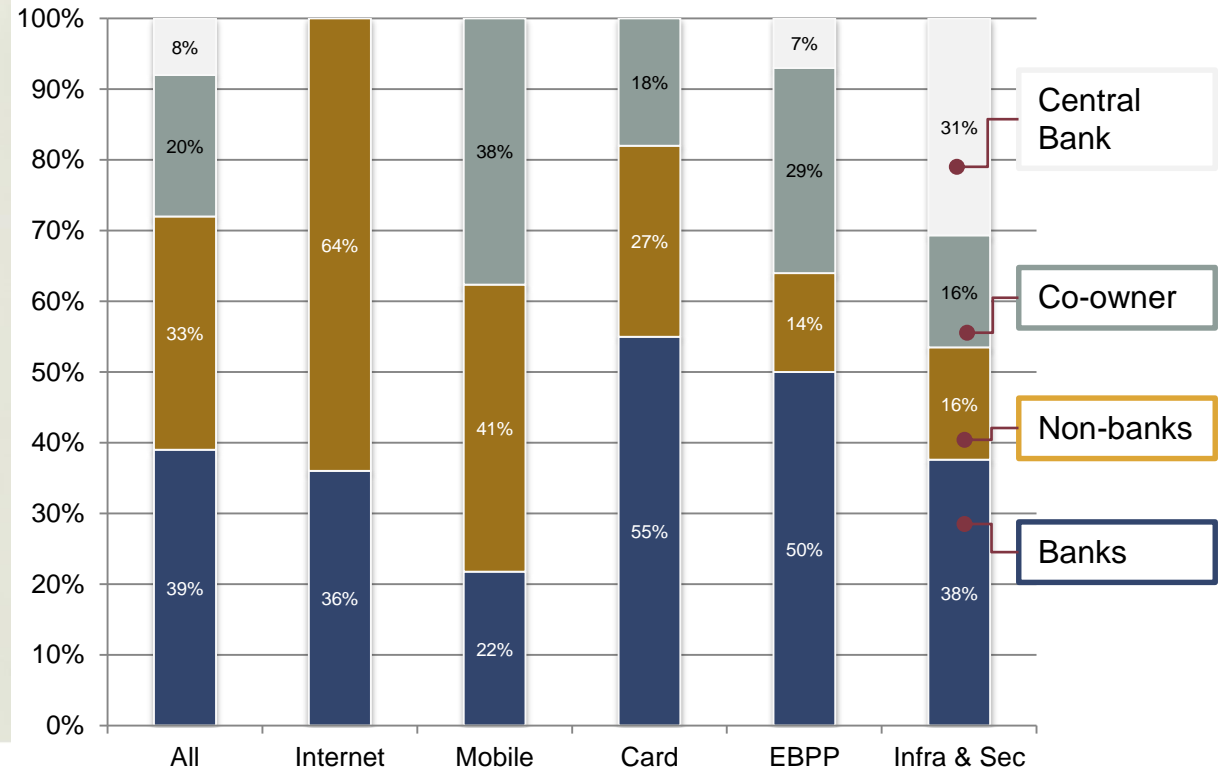
2012: Worldwide overview on  
the various innovations in payments

One result:

The role of non-banks in retail payment innovations has increased significantly owing in part to the growing use of innovative technology that allows non-banks to compete in areas as mobile and internet payments which are not yet dominated by banks.

# Worldwide trend: „Non-Banks“ as a driver for innovation in payments

## Role of non-banks is significantly increasing









Source: CPSS Working Group on Innovations

## Worldwide trend:

# „Non-Banks“ as a driver for innovation in payments

## Fact finding worldwide - Examples

Product type	Example	Effect	
Innovative card solutions	<ul style="list-style-type: none"> <li><b>Octopus Card (Hong Kong)</b></li> </ul>	<ul style="list-style-type: none"> <li>More than 20 mn cards in circulation</li> <li>11 mn transactions / day</li> </ul>	
Internet payments	<ul style="list-style-type: none"> <li><b>Sofort (DE)</b></li> </ul>	<ul style="list-style-type: none"> <li>Payment service for online purchases based on the customer's online banking application.</li> <li>36.000 merchants, 5 mn transactions per month (2016)</li> </ul>	
Internet payment	<ul style="list-style-type: none"> <li><b>Paypal (Luxemburg, International)</b></li> </ul>	<ul style="list-style-type: none"> <li>Worldwide internet-based electronic money scheme. Various ways of funding are offered depending on the user's country of residence.</li> </ul>	
Mobile payments	<ul style="list-style-type: none"> <li><b>M-Pesa (Kenya et al.)</b></li> </ul>	<ul style="list-style-type: none"> <li>15.2 mn customers (Kenya)</li> <li>over 2 mn transactions / day</li> </ul>	
EBPP (Electronic Bill Payment & Presentment)	<ul style="list-style-type: none"> <li><b>SADAD (Saudi Arabia)</b></li> </ul>	<ul style="list-style-type: none"> <li>Market share in SA: &gt; 90 %</li> <li>Migration of access channels to ATMs and internet banking</li> </ul>	
Infrastructure & Security	<ul style="list-style-type: none"> <li><b>Faster payments (UK)</b></li> </ul>	<ul style="list-style-type: none"> <li>Near-real time settlement of internet / phone banking or standing orders</li> <li>122 mn transactions (September 2016)</li> </ul>	

# Worldwide trend: „Non-Banks“ as a driver for innovation in payments



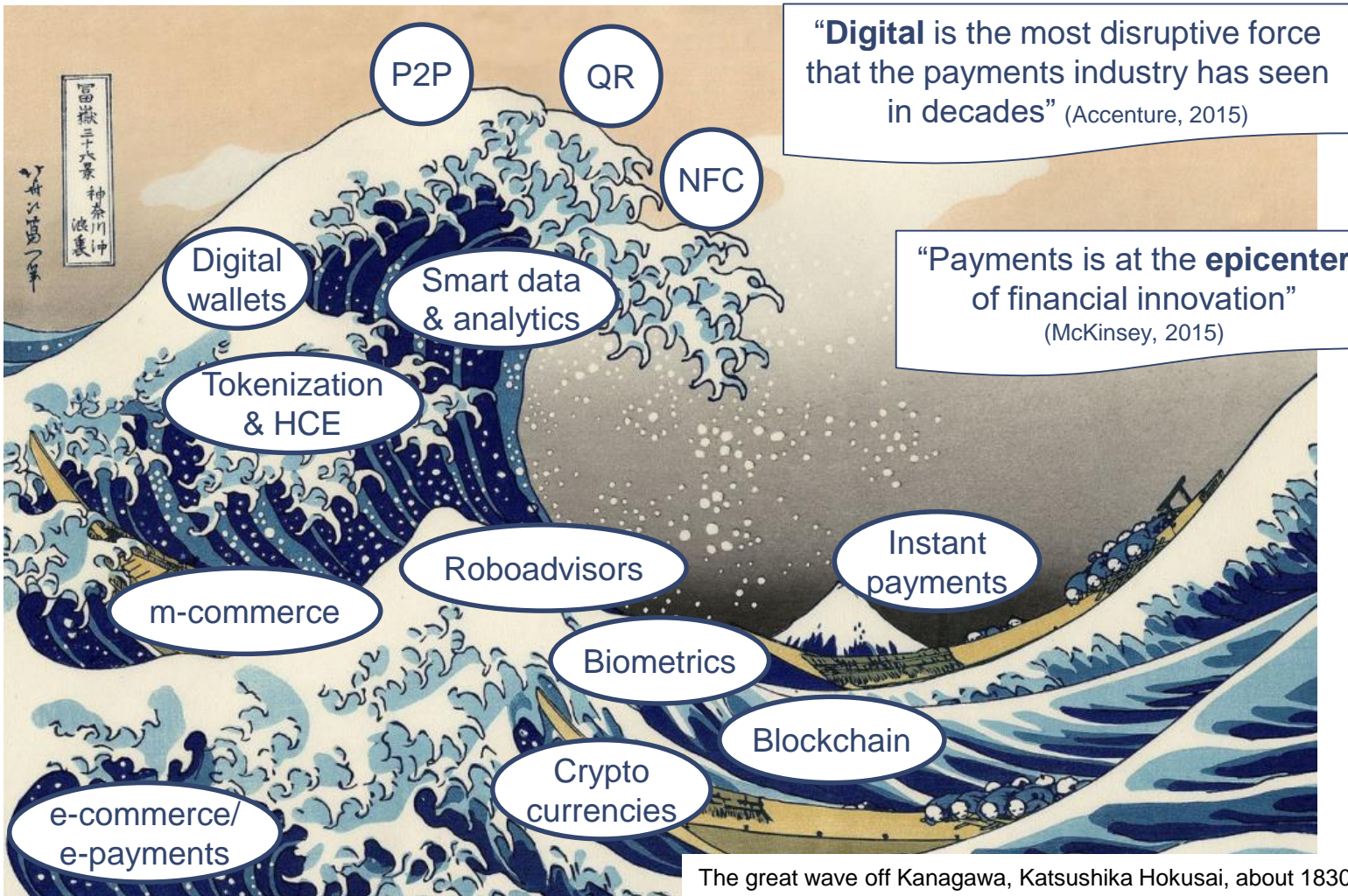
Follow-up work 2014: analytical study

Definition of „non-banks“: Entities involved in the provision of retail payment services whose main business is not related to taking deposits from the public and using these deposits to make loans

Driving factors:

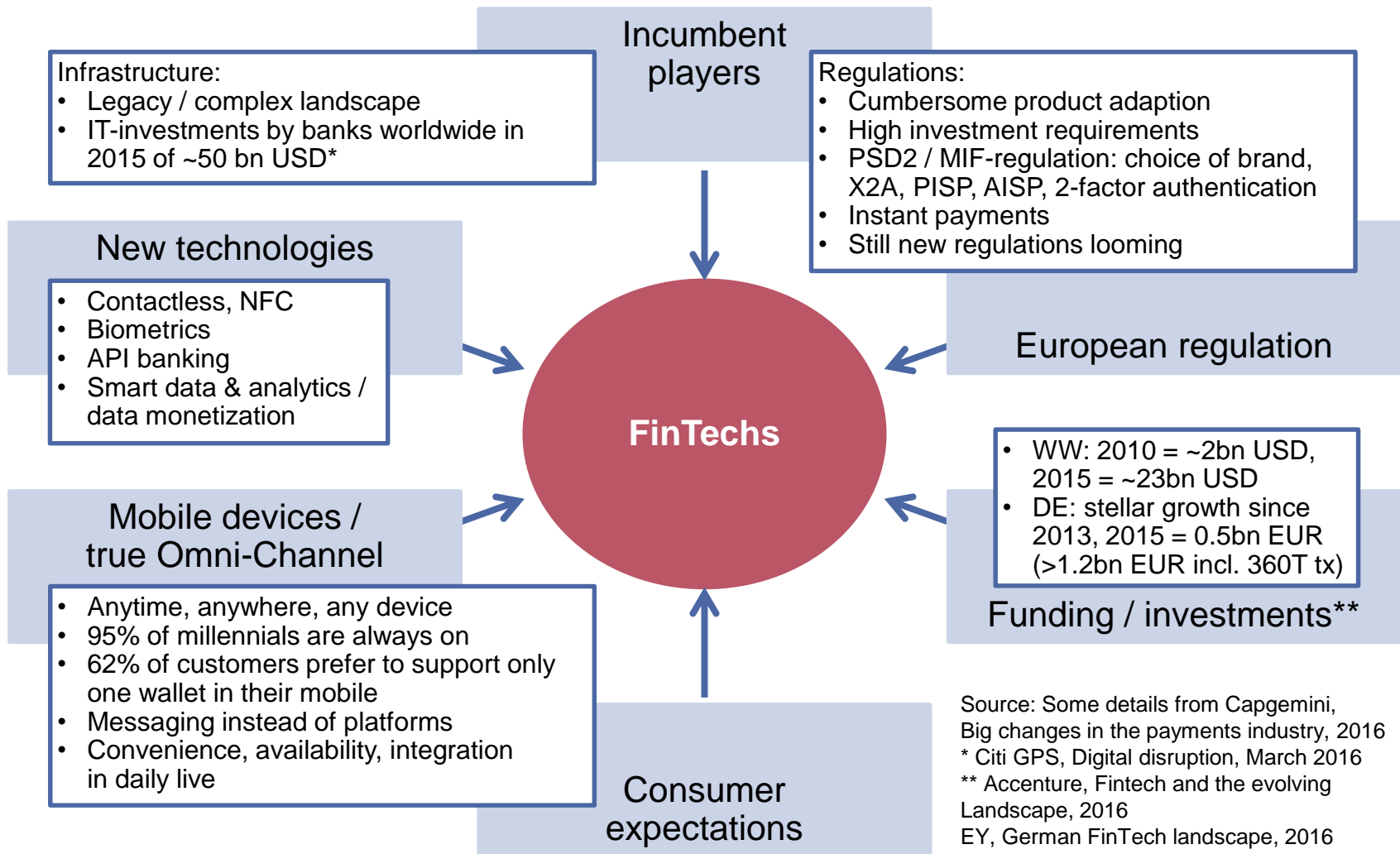
- The trend for banks to outsource payments and technology-related services
- Changing payment habits and customer preferences, including the emergence of new payment needs

# The „FinTech“ wave



# The „FinTech“ wave

## Driving factors



# The „FinTech“ wave

## Definition and areas of activity

### Definition (BaFin)

There is still no clear definition of the concept of a FinTech. Combining the words “**financial services**” and “**technology**”, FinTechs are commonly understood to be **young undertakings** that provide specialised and in particular customer-oriented financial services using technology-based systems. As such, FinTechs follow the trend towards **digitalisation and customisation**, and encourage digital progress in the financial market at the same time. They rely in particular on **customer-friendly, fast and convenient applications** for the user. However, FinTechs are not just in **competition** with traditional financial services providers such as banks, insurers and investment firms, they also to some extent **supplement** the services that these offer.

### Areas of activity

Payments	Financing & credit	Banking & investment	Others
<ul style="list-style-type: none"><li>• P2P payments</li><li>• Remittances</li><li>• E-/m-commerce payments</li><li>• Account switching service</li><li>• Process optimization</li></ul>	<ul style="list-style-type: none"><li>• P2P lending</li><li>• Crowdfunding</li></ul>	<ul style="list-style-type: none"><li>• “Mobile banking”</li><li>• Personal finance mgmt</li><li>• Roboadvisory</li><li>• Social trading</li><li>• Crowdfunding</li></ul>	<ul style="list-style-type: none"><li>• Behavior-based insurance</li><li>• Smart data &amp; analytics</li><li>• Cloud computing</li><li>• RegTech</li></ul>



# Direct Impact of FinTechs on the German market for e-payments

## Starting point:

- Upcoming e-commerce during the midst of noughies
- Lack of payment instruments capable for online payments
- New solutions were quite successful: Paypal and Sofort

## Reaction:

- Cooperative effort by German credit institutions in 2014
- Introduction of „paydirekt“
- Catching up with “incumbents” turns out to be a challenge



# Indirect Impact of FinTechs on the German market for payments

- New App-based payment offerings from FinTechs became a benchmark for user friendliness (e.g. Number 26/N 26)
- New P2P offerings from incumbents (e.g. „Geldbote“)
- New drive to develop new products (e.g. innovation labs as a tool for traditional bank-owned software providers)
- Increasing openness to implement Instant Payments
- Regulation (PSD2) has taken new types of payment services providers into scope → banks will be required to allow access to account for third party providers enabling payment initiation and account information services

Thank you for your attention



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