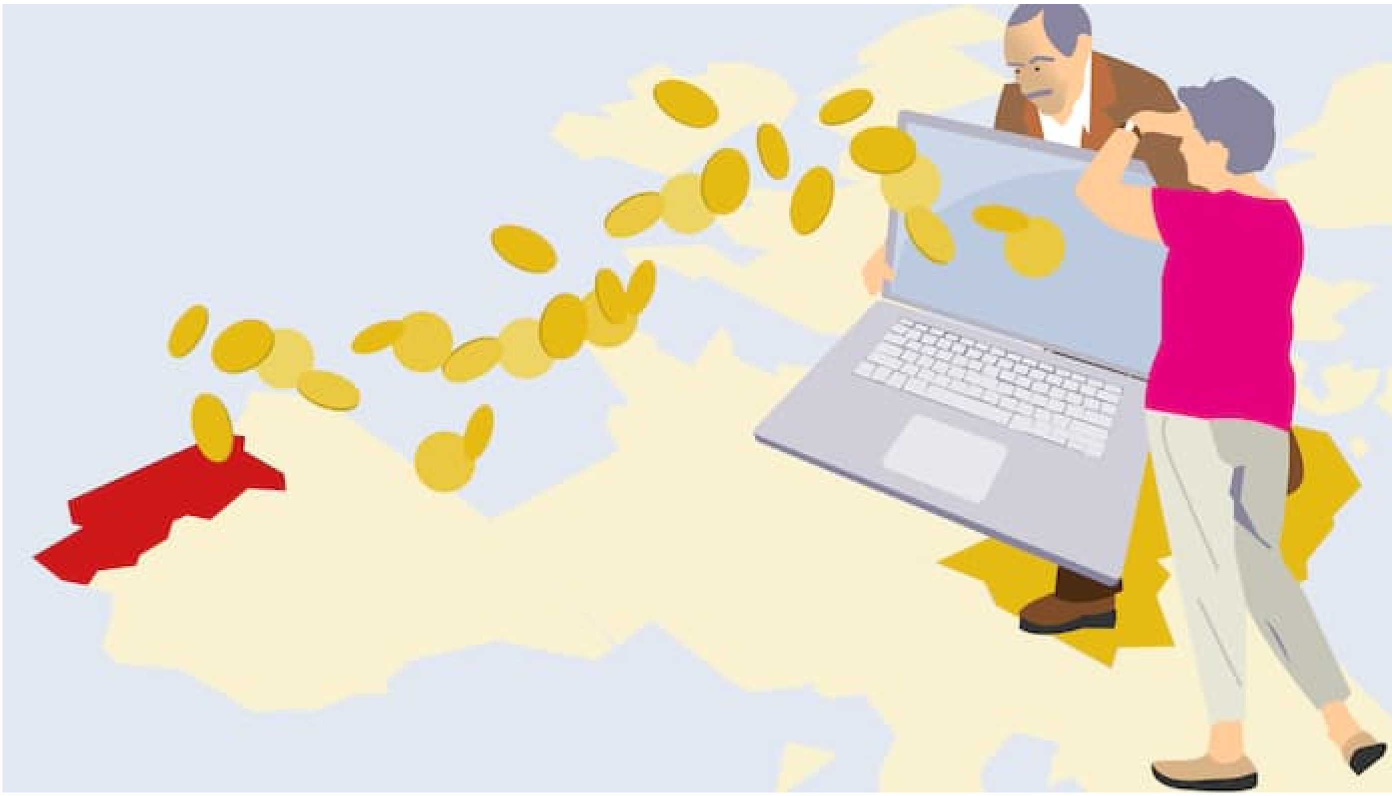
Fintech

German fintech start-ups lure frustrated savers

Start-ups such as Savedo excite interest in the hunt for yield



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SEPTEMBER 18, 2016 by: **Guy Chazan**

Guenther K is one of millions of German pensioners hunting for yield — a prey proving pretty elusive these days. He long gave up on finding it at home. The interest rate offered by his local bank was “just ridiculous”, he says. Stocks and shares “are not my thing”.

So he looked to the other side of Europe, investing his savings in Atlântico Europa, a Portuguese bank, which offers a rate of 1.65 per cent for a year. Rather than fly out to Lisbon and sign all the forms in person, he opened an account through Savedo, a Berlin-based start-up that matches savers to banking products across Europe.

About 51 per cent of Germans invest their money in savings products and 14.6m savers have fixed-term deposits. But with interest rates so low, they are increasingly restless. Even conservative pensioners such as Guenther are looking for alternatives. "That's a huge opportunity for us," says Christian Tiessen, Savedo's co-founder.

Savedo is emblematic of Germany's fintech revolution: one of a crop of companies emerging in Berlin, Hamburg and Munich that are using technology to refashion financial services. Some are attracting interest from international investors who for years were almost exclusively focused on London, the European capital of digital finance.

In the second quarter of this year, Germany's fintech sector received more venture capital funding than the UK's, according to KPMG and CB Insights (https://www.cbinsights.com/research-fintech-Q2-2016): $186m flowed in, 74 per cent more than in the previous three months and substantially more than the $102m the UK received in that period.

German start-ups run the gamut of fintech themes — from mobile payments to robo-advisers, from peer-to-peer lending to crowd-investing. What many have in common is a knack for exploiting German savers' frustration with the miserable returns offered by traditional savings products in one of Europe's biggest banking markets.

"It's crazy right now — everyone is desperate to get out of this low interest rate trap," says Steffen Harting, founder of Zinsbaustein, a digital platform for property investments. "People are increasingly open to alternatives."

But how do you convince Germany's traditionally conservative, risk-averse savers to entrust their cash to the new breed of digital whizz kids?

"You need to build trust and there is no better way to do so than through transparency. And the internet is made for it," says Ramin Niroumand, a partner at Finleap, Berlin's leading fintech company-builder, where both Savedo and Zinsbaustein started off. "The great advantage of companies like this is that the customer knows exactly what his or her return will be."

German fintech: four innovations

Kreditech is a Hamburg-based start-up that offers credit and banking products to people with little or no credit history. The company assesses borrowers' trustworthiness using data sources including Facebook and LinkedIn.

Spotcap is a Berlin-based online lender for small and medium-sized businesses.

Fidor Bank is a Munich-based service combining social media with online banking.

Friendsurance is a peer-to-peer insurance company, based in Berlin, which rewards small groups of users with a cashback bonus at the end of each year they remain claimless.

N26 is a Berlin-based app-only bank that has received funding from Peter Thiel and Li Ka-shing, among others.

Fintech eats lunch: the low-rate challenge

Interest rates have been driven to record lows by the European Central Bank, part of a multi-

However, trust is a fragile commodity in such a new sector, and can easily be undermined. In June, at least 400 customers at N26, an online bank, had accounts terminated (http://next.ft.com/content/cb4d0aaa-4e74-11e6-88c5-db83e98a590a) without warning after they had made unusually frequent withdrawals from ATMs, for which the bank incurs a fee. The move was a PR disaster for N26 and traditional institutions could barely conceal their *Schadenfreude*.

Georg Fahrenschon, head of the German Savings Banks Association, says the affair shows how “it’s one thing to develop an innovative online solution for 5,000 people who have a special interest and another to offer proper, long-term banking services to 50m customers”.

Companies such as Savedo, however, do not purport to offer full banking services: they are more like a broker than a proper bank, matching customers with banks in peripheral countries.

A similar service is offered by start-up Raisin, whose 45,000 customers have invested around €1bn in 19 foreign banks through the company’s Weltsparen.de site.

Savedo does the bureaucratic heavy-lifting that is beyond the average retail customer. It finds the banks with attractive savings products and approaches them about accepting deposits from German customers.

Some do not respond, or “just say ‘leave us alone’”, says Mr Tiessen. “In places like eastern Europe, it’s all about the personal relationship. You have to build up trust.”

Banks must also be persuaded to adopt innovations such as ID verification via video link-up, so customers do not need to fly to, say, Portugal for a meeting with the bank manager. Savedo has to persuade regulators in the bank’s home country to allow it to accept German deposits. BaFin, the German financial watchdog, must approve the partner bank.

Deposit Solutions, a Hamburg-based start-up, provides a similar service to Savedo and Raisin, offering an “open architecture” platform where banks can solicit deposits from private customers in Germany. The advantage for customers is that they do not have to open multiple accounts at the various banks, but can manage their investments — like shares — from their home bank account.

The platform is interesting for banks because “it allows [those] that aren’t in the retail business to serve customers using other banks’ retail infrastructure”, says Tim Sievers, Deposit Solutions’ chief executive.

The company has taken advantage of changes in international regulation that place pressure on the financial services industry. For example, regulators are pushing banks to hold more cash and securities that are easy to sell.

Holding more retail deposits is one way for banks to achieve this, Mr Sievers says. That is why many non-universal banks are keen to tap the retail customers using Deposit Solutions’ site. Those partnering with the start-up include Close Brothers, the merchant banking group, which gives savers a rate of 1.35 per cent for three-year fixed deposits.

Savedo’s customers must accept some risk. The company says that money held in, say, Portuguese accounts is safe because, just like Germany, Portugal operates a deposit insurance scheme that protects savings up to €100,000 — although Germany’s capacity to guarantee such a promise is greater.

But others disagree that the two countries’ banking systems are comparable. “The problem with this kind of cross-border arbitrage is that whichever way you look at it, the likelihood that you’ll not get your money back is higher in, say, Greece than in Germany,” says the head of a rival fintech start-up.

pronged strategy to galvanise the eurozone banks.

The policy has proved a bitter pill in Germany. Banks are often unable to recycle all their deposits into loans, so derive much of their earnings from net interest income — the difference between interest earned and interest paid.

Some have taken the extreme step of charging their retail customers negative interest rates. Last month, the co-operative bank in Gmund am Tegernsee, a small town south of Munich, said it would levy a “custodian charge” of 0.4 per cent on deposits above €100,000.

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Despite the risks, Mr Tiessen believes Savedo is providing a useful service.

“We’re just trying to bring together two parties — the retail investor and the bank — to make the market more efficient,” he says.
