

The German payment market – large, complicated and slow moving

An interview with Christine Krause, associate at payments advisory firm Innovalue

Which acquirers are strong in Germany?

There are three groups of players: pure credit card acquirers like ConCardis (owned by the major German banks) or Elavon, pure debit card network service providers (NSPs) like Telecash (owned by First Data) and those, who are active in both segments like B+S (part of the Savings banks group), easycash (owned by ingenico) or InterCard. Some NSPs like easycash or InterCard provide payment guarantees for the direct debit schemes called ELV and act like debit acquirers.

Who are the most important card issuing banks in Germany?

By the total number of cards, the clear number one are the Savings banks. The group includes three large issuers of cobranded cards: LBB, LBBW and DKB. They are followed by the Cooperative banks including DZ Bank and WGZ. Large private issuing banks are Deutsche Bank (including Postbank), and Commerzbank amongst many others.

What is the landscape in terms of interchange fees on payment transactions in Germany?

Interchange fees vary depending on the type of card. For credit cards, the average fee is between 1-1.2%.

Fees for the local debit scheme girocard are between 0.2% and 0.3% but there is a new procedure in implementation to allow (mainly large) merchants to negotiate even better fees with the banking groups and NSPs. There are no banking fees for ELV (direct debit) but merchants have to bear the full risk in case the NSP does not provide a payment guarantee. The fees for a guaranteed ELV transaction are slightly lower than a girocard transaction.

How important are loyalty pro-

grammes (linked to payment cards) in the German market?

Even though Germans are still reserved in card use, loyalty schemes are increasingly accepted and well established. Nevertheless usage of loyalty cards in Germany is below average compared to other countries in Western Europe, offering a further growth potential.

The three main players in this segment in Germany are Payback, Miles and More (Lufthansa) and bahn.bonus (Deutsche Bahn). Miles and More and bahn.bonus in particular, recorded growth over recent years, while Payback has seen a slight stagnation. It remains to be seen whether Payback will gain valuable impetus from its parent company American Express, as they focus on very different customer groups (mass market rather than upscale).

Payback has issued around 37 million cards in Germany of which around 20 million are actively used (source: Statista).

Another major trend is the increase in partnerships. One example is the cooperation between Payback and the Mobile Operator Deutsche Telekom enabling customers to collect Payback points for the purchase of Deutsche Telekom products.

How do you see the German mobile payments market developing? How important will NFC be, or will other technologies be used?

There are new payment initiatives announced in Germany nearly every week.

But until now the market impact is relatively slow as German consumers are rather sceptical about mobile payments. Furthermore the deployment of NFC-capable POS terminals is evolving slowly as retailers do not speed-up their infrastructure investments with-



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out receiving additional value. Germany is currently falling behind other European countries regarding Mobile Payments acceptance - intuitive and simple solutions with low entry barriers are needed.

How powerful are German telcos in mobile payments? Are they launching their own

payment initiatives or will they collaborate with established payment players?

Most of the players are cooperating with financial institutions and plan to issue own digital payment cards in their mobile wallets. In addition they invite all banks to enable their cards to be used in those wallets. Until now wallets with NFC technology have not been launched yet, but we expect to see some motion in the second half of the year.

How do Germans pay on the internet?

According to a study of the EHI Retail institute the majority of Germans pay with bank transfer. Credit card, PayPal and direct debit follow with over 10% respectively. Cash on delivery, pay in advance and sofortüberweisung [an epayment service] account only for a small part.

DV Bank starts m-payments

Offering for O2 wallet customers

Dortmunder Volksbank has started an NFC mobile payment service featuring a virtual credit card integrated into smartphones.

The German bank's "ClassicCard Mobile" virtual card is available to customers that have the digital O2 Wallet. They must also be using either the Samsung Galaxy S3 or Samsung Galaxy Ace 2 NFC-enabled smartphone, and will need an O2 mobile contract and related NFC SIM card.

The Trusted Service Manager (TSM) service is operated by Giesecke & Devrient in cooperation with systems integrator DG Verlag, which is a partner of cooperative banks as well as other institutions.

DG Verlag uses the TSM service to install and personalise the



ClassicCard Mobile credit card on customers' smartphones via a secure wireless connection, storing the card in a secure element on the SIM card. For payments of over €25, customers must also enter a PIN code to authorise the transaction.

Customers submit an application for the virtual ClassicCard Mobile credit card to Dortmunder Volksbank, and then receive a notification that allows them to activate the payment service. The TSM operated by G&D then enables the payment application.