NEW RIVALS

Fintechs Forge Into Corporate Banking

ELISABETH ATZLER AND KATHARINA SCHNEIDER

Fintechs are starting to woo corporate clients, opening a new front in their battle to seize market shares from established banks.

WHY IT MATTERS

Fintechs new focus on corporate customers pose another threat to established banks, which are already suffering from rock-bottom interest rates and rising regulation and digitalization costs.

FACTS

According to SSC Management Consult, about 100 fintechs are starting to offer services for corporate customers.

SSC concludes that German banks could lose about €3.4 billion in annual gross income earnings to fintechs in the corporate banking business.

Traditional banks are expected to see very little earnings growth by 2020.

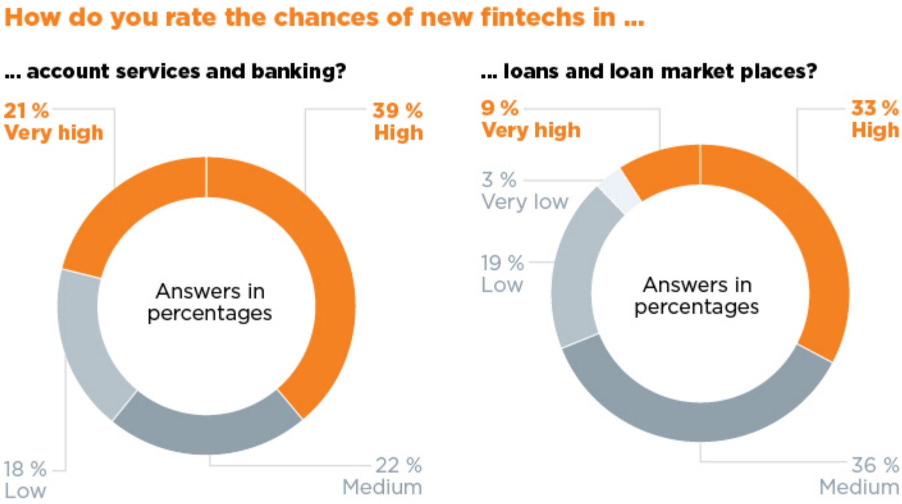
For many years, Christopher Plantener was loyal to the bank he opened an account with when he was a student. When he founded his first company, he wanted to open a new corporate account there too. “It took me 10 years to get a line of credit, and I’m still waiting for a credit card,” said the 41-year-old, who has never had an employment contract.

Mr. Plantener wants to do better than his bank. With three like-minded individuals, including a former manager of smartphone bank N26, he established the financial start-up Kontist a few months ago. It offers the self-employed a free account and helps them to immediately set aside the correct amount of tax whenever income is posted to their account. Additional functions will be added in the future. Mr. Plantener’s vision is a business account that takes the bulk of the accounting work out of the hands of solo entrepreneurs and also helps them with their personal financial planning.

By going after corporate customers, the financial start-ups known as fintechs have launched a frontal attack on a core business of established banks such as market leader Deutsche Bank, number two Commerzbank, cooperative banks like DZ Bank and regional banks such as Landesbank Baden-Württemberg. Kontist is the pioneer of a rapidly growing movement. Cologne-based consulting firm SSC Management Consult estimates there are 100 fintechs offering corporate banking services in Germany.

> “The attack couldn’t come at a worse time for established banks, weighed down by rising costs and falling revenue.”

After wooing retail banking clients, fintechs are now forging into corporate banking. Few are doing so as aggressively as Kontist, Finnish competitor Holvi and N26, which also began offering a business account re-



HANDELSBLATT // Survey of 94 senior managers at banks and savings banks **Source:** SCC Management Consult

In a recent survey, bank managers admit that fintechs have good chances of entering the account services and banking markets. They're less optimistic about prospects for entry into the lending market.

cently. SSC concludes that German banks could lose about €3.4 billion in annual gross income to fintechs in corporate banking. That would amount to a loss of 10 percent.

The attack couldn't come at a worse time for the established players. Their income from lending and deposits has shrunk due to rock-bottom interest rates, and their costs are rising because of ever-tighter banking regulations and investment in digitalization. That means their earnings are doomed to stagnate until 2020, according to a recent study by Boston Consulting Group (BCG).

Meanwhile, the newcomers are growing rapidly. Kontist expects the number of its customers to reach 8,000 by the end of the year. It's using joint ventures with online invoicing software Debitoor and tax consulting software Datev to help boost growth and improve its range of services. It's gathered some €2 million, or $2.2 million. That's in line with a trend. According to figures from BCG, fintechs with a business banking focus have attracted the bulk of global investment going into fintechs for over a year. Since 2000, more than half of the $100 billion invested in fintechs has gone into corporate banking start-ups.

Lending and financing management are a major focus of the newcomers which include Funding Circle, Creditshelf and Ferratum. Companies like Demico, Tradico and Rechnung48 offer factoring and other pre-financing services. Most of these fintechs operate in a segment that isn't lucrative for banks because the risks are too great and the loan amounts too small. Nevertheless, BCG partner

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>
> KIRSTEN OPPENLÄNDER
> HEAD OF DIGITAL SOLUTIONS FOR CORPORATE CUSTOMERS AT DEUTSCHE BANK

Oliver Dany sees them as a threat to the industry, not least because some are offering their services to large companies. “This applies, for example, to supplier finance firms like Taulia or uncomplicated lending by financial intermediaries such as Lendico.” Fintechs like Fintura or Compeon, which, as comparison and trading platforms, bundle many different services, make the market more transparent and thereby bring down prices, he said.

Banks need to be on guard, because a lot is at stake for them. According to the SSC study, German banks generate an average of 27 percent of gross revenues with corporate customers. For the survey, SSC interviewed 144 top managers from banks and savings banks, as well as fintech investors active in Germany. There was no lack of self-criticism among the bankers, with about 60 percent rating their own online offerings for commercial customers as “weak” or even “very weak.” This is why consultant Mr. Dany advises banks to look for suitable partners among the fintechs.

That's exactly what some are doing. Deutsche Bank, for example, is trying out several fintech joint ventures for its corporate customer business in pilot projects. Kirsten Oppenländer, who heads the digital solutions unit for corporate customers at Germany's largest lender, also attributes this to changes in the needs of entrepreneurs. “In the private sector, customers are already using many convenient online solutions and intuitive apps, and they want the same thing for their company."

Unlike in the past, financial technology for companies now lags behind what is available for private individuals. So it's time to catch up. Deutsche Bank is testing a joint venture with Advanon which provides factoring for small and medium-sized companies. "This could complement our existing range of services very well, since we cannot offer these small ticket sizes ourselves," explained Deutsche Bank manager Oppenländer. Fastbill and Smacc are two companies that help the self-employed and small businesses with accounting software. "With Fastbill and Smacc, we could provide our customers with added value that goes beyond traditional banking services," said Ms. Oppenländer.

Commerzbank is also pursuing cooperative ventures with fintechs. Christian Hoppe, managing director of the bank's Main Incubator unit through which it invests in young companies, cites as examples Commerzbank's collaboration with OptioPay and Bilendo - an online payment system and a provider of receivables management respectively. Other partnerships are still in the pilot phase.

"Fintechs are an important catalyst for change in the industry," said Klaus Juchem, a financial services expert at consultancy Roland Berger. Business banking is more complex than retail banking and the number of potential customers is smaller, said Mr. Juchem. This made it more difficult for fintechs to strike out on their own.

Michael Schmidt, a partner at SSC, expects fintechs to attack banks mainly in the areas of corporate accounts, payment transactions and deposits. He expects them to conquer a market share of 5-10 percent by 2025.

In other words, the outlook is good for fintech founders like Christopher Plantener.

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