





Online Payment in Germany

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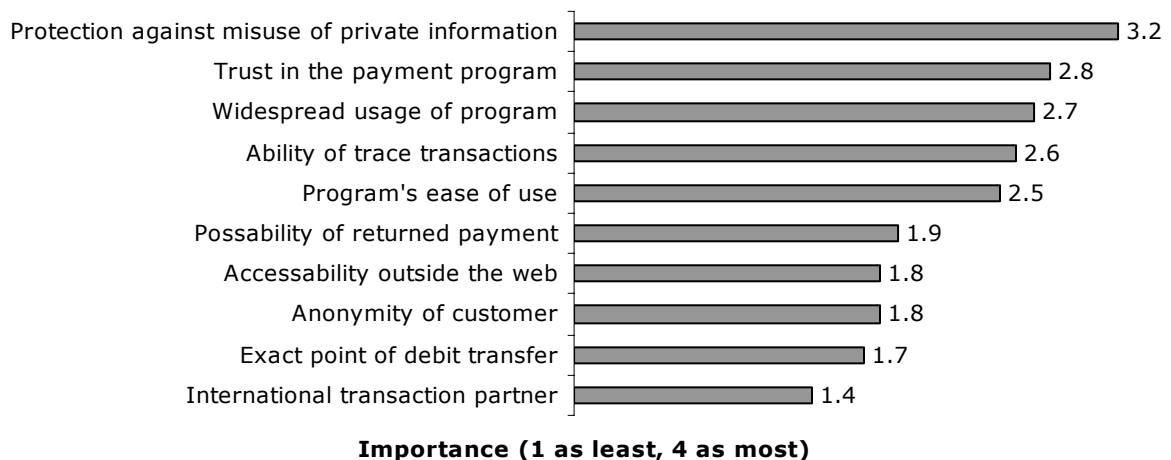
Summary

The German market provides excellent opportunities for companies who want to market and sell their products online, as well as for companies offering innovative online payment solutions. Online commerce in Germany is expected to see a 40 percent increase by the year 2008. In 2004, B2C online commerce peaked at an all-time high of EUR 680 billion. It is expected that by 2008 German online commerce will reach over EUR 2.2 billion. There are many forms of online payment available, with some being more popular and trusted than others. Online customers and online merchants are looking for specific features in online payment solutions, some of which do not always compliment each other. The differentiation between B2B and B2C as well as macro/micro-payments for online payment programs are distinct, and present and future trends vary between each type of transaction. This report will focus on online payment solutions and the marketability of payment programs in Germany.

Online Payment Trends

Online payment in Germany is very popular and with the variety of payment forms, more and more consumers as well as sellers are turning away from paper transactions to Internet or mobile phone transactions. The security of the payment form, the ease of its use, the variety of payment options and the familiarity of the seller are all important factors for German consumers. Below is a chart of the importance of certain factors for customers in the online-payment process.

Customer Importance for Aspects of Payment Solutions

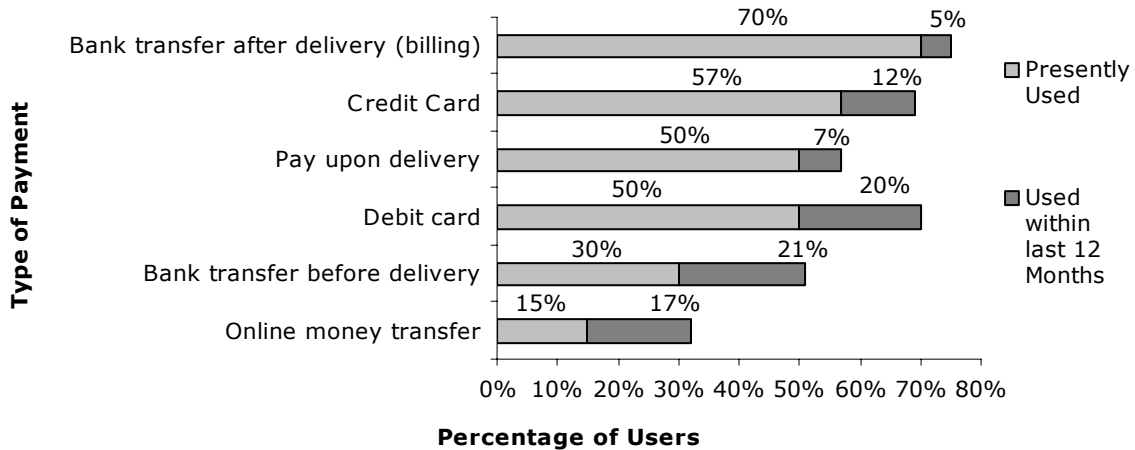


Source: ECIN 2003

Transaction Forms Currently Used in Germany

There are several forms of online payment that are being regularly used in Germany. They can be distinguished between micro- and macro-payments. Micro-payments mark the payment of small amounts, for instance the purchase of a digital piece of music or the download of an article requiring a charge. In general micro-payment deals with amounts up to about EUR 5.00. Larger amounts are accordingly considered as macro-payments. Credit cards, pay-upon delivery, and billing are more popular for macro-payments as additional fees or administrative obstacles do not make them economical for micro-transfers.

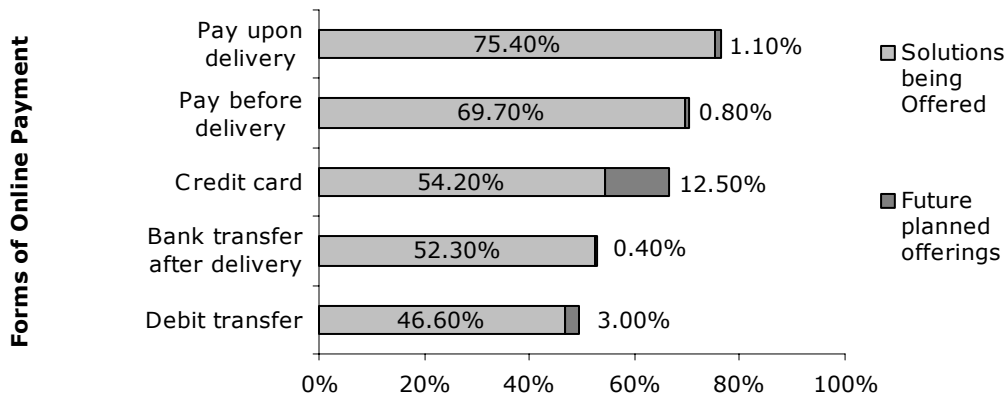
German Macro-payment Forms 2003



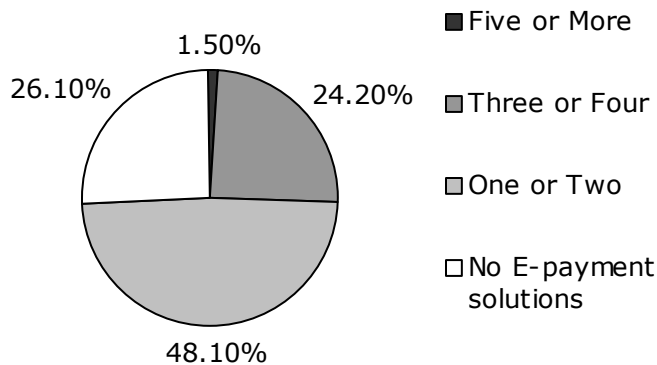
Source: ECIN 2003

Online money transfers, debit cards, mobile phone payments, pre-paid money cards or online money-transfer services such as PayPal are most commonly used for micro-payments. The more payment forms available, the more comfortable a German client will feel about finding a suitable online payment form for them.

Macro & Micro- Payment Solutions Currently Offered/ Future Solutions Plans



Number of Electronic Payment Solutions Offered by German Companies



Source: ECIN 2004

Forms of Payment

Billing (Rechnung): There is no on-line transaction involved. It involves some risks for the seller, because of the absence of a payment guarantee. Its popularity is waning, but it is still the predominant form of payment for macro- transactions.

Online Money Transfer before delivery (Online Ueberweisung): This form of payment is very popular with German consumers, especially for micro-payments. The customer obtains the seller's bank information and fills out an online money transfer form. This form requires the bank account number of the seller and the bank identification code (Bankleitzahl) for the seller's bank. The money is then directly transferred electronically to the seller before the customer receives his goods. This option is only available for persons/companies with a German bank account.

Pay-upon-delivery: There is no on-line transaction involved. The customer makes a cash payment to the delivery company, who then transfers the money to the seller. Among the delivery systems that offer pay-upon-delivery in Germany are Deutsche Post DHL and UPS.

Credit Card: Credit cards are still not as widely used in Germany as they are in the United States. Smaller businesses often opt out of this payment form because of the transaction fees involved. However, German customers do trust this method as relatively safe and reliable.

Debit directly from customer's account (Lastschrift): This is a safe and widely used form of payment in Germany. It can but does not have to involve online transactions. The process of payment is not ordered by the payer but by the remitee, that means the remitee gives his bank the task to debit a certain amount directly from the account of the payer and to transfer this amount to the remitee's account. Beforehand the payer must agree to the terms of condition for Lastschrift payment.

2000Charge is a popular solutions provider for this method of payment.

Mobile Payment: This payment form is becoming more and more popular in Germany and is expected to grow in popularity: The customer calls his bank and completes a money transfer directly to the seller. The customer must have a special bank account, but for the seller, it is the same process as with an online money transfer. Paybox is the leading provider of mobile payment solutions for e-commerce and m-commerce (mobile commerce) in Germany.

Pre-Paid Money Card: The transaction volume for this payment form is growing at a rate of about 24 percent per month. The cause of this steady growth is the use of pre-paid money cards in online shops. About 2,000 online sellers accept pre-paid money cards. This card is used mainly for micro-payments, however it is possible for customers to buy a money card in value of EUR 1,000. It functions just like a phone card does, but is more secure. No special bank account is needed on either end, there are no fixed yearly or monthly costs for the seller and the customer doesn't need to unveil his credit card or bank account information. A popular money card is the paysafecard sold by Commerzbank AG.

Domestic Payment Solutions Market

There are many different payment program solutions being offered on the market, but for companies wishing to sell on the German market, it is important to select one that customers will trust. Some of the things to keep in mind when looking for the right online payment program is the program's compatibility with various web-providers, operating systems and browsers and the program's security. Some popular and well-respected programs that current German companies use are WEB.cent, Firstgate Click & Buy, INFIN-Micropayment, PayPal, and 2000Charge.

WEB.cent and Firstgate Click & Buy are prepaid methods, whereby the customer receives an account by loading their credit card information or bank account information online to the solutions website. Once a purchase is made, the credit card or bank account is charged. These solutions only work for micro-payments.

INFIN-Micropayment is a mobile/landline-phone payment solution for micro-transactions. The customer calls a toll number and is given a transaction number with which the customer proceeds in completing the payment transaction online. INFIN keeps credit card or bank account information completely confidential while mixing the median with which the payment process is completed, thus making it harder for criminals to steal customer information.

PayPal: This is an online payment program owned by eBay. PayPal enables any individual or business with an email address to securely, easily and quickly send and receive payments online. The customer uses a debit or credit card to have money sent directly to the recipient. The benefit of this program over a direct credit card program is that there are no set-up or monthly fees and the transaction fee is relatively low. It cuts the costs for a normal merchant significantly. This is both a macro and micro-payment solution

Demand for E-Payment Solutions

B2B transactions make up the bulk of online commerce in Germany, but B2C transactions are growing rapidly. With this growth, the demand for online payment solutions is also growing. The relatively new European Union Electronic Signatures Device is helping to increase the confidence in online transactions and is expected to further boost the B2C e-commercial growth.

EU Electronic Signatures Device

The EU Electronic Signatures Device is an important initiative directed towards helping increase the security and ease of online transactions. American companies whose sales or purchase transactions involve secure information and require a legal signature can now safely accommodate e-commerce. In the past, only hand-written signatures have been legally valid, but this legislation extends that recognition to electronic signatures and applies the Internal Market principles of free movement of services and home country control to e-commerce. For more information on this initiative go to: <http://www.bsi.bund.de/esig/basics/index.htm> (only in Germany) for German regulations or http://europa.eu.int/eur-lex/pri/en/oj/dat/2000/l_013/l_01320000119en00120020.pdf (in English) for the overall EU directive.

Factors that Shape Product Sales

There are great hopes and potential for online payment solutions, especially for systems geared specifically towards e-commerce needs. However, the demands of merchants and customers in Germany diverge widely. Customers are looking for solutions that offer portability, anonymity and solutions that are widely used among merchants. Online businesses need secure, user friendly, and low-priced innovative payment solutions. Therefore there is a wide range of needs for solutions to fulfill. It is also important for American online payment solution providers to be aware of the strict privacy laws in Germany that prohibit financial institutions from sharing customer information. These personal data protection laws are among the strictest in Europe.

Payment Solutions Climate

The online business market is growing quickly and thus, so is the demand for online payment solutions. According to market analysts, there is a high demand for online payment solutions in Germany, especially for micro-payments. However, the medium and long-term trends are not expected to be consistent. According to market research done by the Deutsche Bank in 2004, new solutions are expected to have a chance in the market, especially in the area of micro-payment. However, legal and technical factors might limit the long-term potential of newer innovative payment systems. In the long term, it is expected that upgraded traditional solutions will be preferred over the vast majority of innovative systems.

For More Information

The U.S. Commercial Service Germany can be contacted via e-mail at: frankfurt.office.box@mail.doc.gov, website: <http://www.buyusa.gov/germany/en/>.

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