



Insolvency *Wirecard AG (2020)*



Background and context

Wirecard AG (Wirecard) is a German provider of e-payment and risk management (fraud prevention) services, as well as the issuing and processing of physical cards. It is Europe's largest Fintech and operates in 26 locations globally with 5,800 staff. The Wirecard Group includes Wirecard Bank AG – a banking entity, and Wirecard Card Solutions Ltd. (Wirecard UK) – a licensed e-money provider in the UK which allowed Wirecard to issue cards on behalf of UK Fintech firms. In 2018, Wirecard was valued at €24 billion (\$27.9 billion) and replaced Commerzbank in the prestigious Dax 30 Index, making it an automatic investment for global pension funds.

The company (Wirecard) was led in an extremely casual way ... like a start-up rather than a listed company

Tina Kleingarn, former member of Wirecard's supervisory board

The failure of Wirecard via filing for insolvency on 25 June 2020, is attributed to multiyear accounting fraud. Irregularities were traced back to 2008 as raised by the Head of the German shareholder's association, followed by the Financial Times (FT) from 2015 to 2020, a criminal investigation by Singaporean authorities in February 2019, and a special audit by KPMG which concluded in April 2020.

Wirecard was deemed as a technology company, and not a financial services provider. As such, the Wirecard Group was not supervised by Germany's Federal Financial Supervisory Authority (BaFin), which only had jurisdiction over Wirecard Bank. Moreover, BaFin, Deutsche Bundesbank (Germany's central bank) and the ECB had jointly agreed that Wirecard should not be categorised as a financial holding company.

The codename was 'Project Panther'... for Wirecard CEO's most audacious idea yet, a plan to take over Deutsche Bank ... a new entity to be dubbed 'Wirebank' would be thinking and acting like a Fintech, at the scale of a global bank

Financial Times

In early 2019, Wirecard's share price plummeted by 40% upon investigations of accounting fraud or 'round-tripping' at its Singapore office. However, BaFin's announcement of a two-month ban on the short selling of Wirecard shares immediately restored its value by 16%. BaFin's actions were based on the 'serious threat to market confidence' from the precipitous fall in Wirecard's share price and its 'importance for the economy' (Wirecard processes payments for Germany's two largest retailers and 250,000 merchants, and more than 100 airlines globally).

Resolution of Wirecard – Timeline of Key Events



Resolution actions

On 25 June 2020, Wirecard filed for insolvency with debts of €3.5 billion (\$4.26 billion). An administrator was promptly appointed by the Munich court with the priority to stabilise Wirecard's operations, keep its subsidiaries in business and concomitantly, to seek for buyers. As a Fintech company without physical assets, the challenge was to ensure expeditious sale of Wirecard's subsidiaries before its customer base shifted to competitors. As of June 2020, Wirecard's loans were reportedly sold to distressed-debt investors at less than 20 cents to the Euro.

Immediately after the insolvency, BaFin ringfenced and appointed a special representative to Wirecard Bank. The imposition of a partial payments ban prevented monies from being moved out from Wirecard Bank to cover losses in other parts of the group. Reports indicate that BaFin decided against freezing the assets of Wirecard Bank given its solvent status (Tier 1 capital ratio of 21% in 2019). Additionally, messages and clarifications on deposit insurance coverage were continually emphasised to provide assurance to customers of Wirecard Bank.⁷²

As at September 2019, Wirecard Bank was reported to have held total deposits of €1.72 billion (\$1.94 billion). In early July 2020, Deutsche Bank disclosed discussions with BaFin on providing potential financial support to Wirecard Bank. Creditors of failed Wirecard AG include Deutsche Bank – within a consortium of 15 banks – which are collectively owed €1.6 billion (\$1.95 billion). In August 2021, it was reported that creditors, shareholders and other aggrieved parties have filed more than €14 billion (\$16.6 billion) of claims with the administrator of Wirecard.

The UK's Financial Conduct Authority (FCA) was also concerned that assets of Wirecard UK would be transferred to Germany after Wirecard AG's insolvency. On 26 June 2020, the FCA suspended Wirecard UK's e-money licence to protect the interests of financial consumers. UK Fintech firms (e.g. Pockit, Anna Money, Curve) used Wirecard UK to issue cards and process payments for individuals and businesses. As a result, millions of consumers were not able to access their 'frozen' monies or make payments for three days until the FCA lifted the suspension on 29 June 2020. On 10 July 2020, the FCA issued additional guidance to payment and e-money firms on proper segregation, records, and holding of customer funds in 'safeguarding accounts'.⁷³

Key takeaways

While the failure of Wirecard is attributed to prolonged sophisticated accounting fraud, it sheds light on contemporary challenges in the oversight of Fintech firms. This includes the regulatory treatment of Fintechs as technology or financial service providers, the level of supervision at holding company (Wirecard Group) or subsidiary level of specific regulated activities (e.g. Wirecard Bank) and inter-connectedness within the group, as well as assessing the systemic nature and impact of Fintech operators within an evolving landscape.

It is becoming ever more clear that the (Wirecard) Bank ... was part of Wirecard's system of opaque money flows which was used to organise the fraud

Florian Toncar, German Member of Parliament

Wirecard's case also highlights the potential concern of internal governance lapses when it comes to regulating a banking subsidiary within a broader financial group. In

December 2020, it was reported that the former COO of Wirecard Group had directly influenced credit decisions at Wirecard Bank (although both entities had separate and independent Boards).

A contemporary theme is how COVID-19 potentially fast tracks public adoption of e-payments and continuing digitalisation of financial services. This warrants attention to the growing role of firms such as Wirecard not just in supporting the domestic economy, but also cross-border dynamics of providing critical services to Fintech players in other countries. In parallel is the imperative to ensure adequate protection for consumers of digital payments, e-money, virtual banking and other technological propositions to come.

In Germany's case, statutory and voluntary deposit insurance served as crucial foundations to maintain the confidence of depositors (individuals and business) in times when banks undergo stress. This is particularly true in the case of Wirecard Bank, which remained solvent but faced an existential crisis of confidence from failure of another key entity in the group.

⁷² Deposits at Wirecard Bank were protected by two deposit insurance schemes. Firstly, up to €100,000 for private individuals, partnerships and limited companies by the legally prescribed Compensation Scheme of German Private Banks or Entschädigungseinrichtung deutscher Banken GmbH (EdB). Second, by the Deposit Protection Fund of the Association of German Banks (BdB) (of which Wirecard Bank is a voluntary member) up to 15% of Wirecard Bank's own funds per customer (€19.7 million). As a rule, creditors who are natural persons (even if they are acting in the course of their commercial business) as well as commercial partnerships and legal persons are included in the scope of protection

⁷³ These rules were part of planned issuance in response to COVID-19 which was fast tracked as temporary guidance to payment and e-money firms to strengthen prudential risk management and arrangements for safeguarding customers' funds