

# Case 1: Wirecard

## Module 1: Why Do Financial Services Cost So Much?

### Background

Wirecard AG was a German payment processor and financial services company founded in 1999. It provided the behind-the-scenes technology that allowed merchants to accept credit and debit card payments – the kind of infrastructure that adds cost to every transaction (as covered in M1L1). By the mid-2010s, Wirecard had positioned itself as Europe’s answer to Silicon Valley FinTech. It offered payment processing, issuing services, and digital banking tools to merchants worldwide.

In 2018, Wirecard joined the DAX 30, the index of Germany’s 30 largest publicly traded companies, replacing Commerzbank – a 148-year-old institution. At its peak, the company carried a market valuation of approximately EUR 24 billion. Investors, politicians, and regulators treated Wirecard as proof that Germany could produce a world-class technology company. The stock was a favourite among retail investors and hedge funds alike.

The company’s narrative was compelling: a lean, tech-driven payment platform that could undercut traditional banks on cost. That narrative attracted capital, talent, and regulatory goodwill. It also discouraged scrutiny.

### What Happened

Questions about Wirecard’s accounting had surfaced for years. The Financial Times journalist Dan McCrum published a series of investigative reports beginning in 2015, alleging that Wirecard was inflating its revenues through a network of third-party partner companies, primarily in Asia. These partners supposedly processed payments on Wirecard’s behalf and held the resulting cash in escrow accounts.

Rather than investigate McCrum’s reporting, Germany’s financial regulator BaFin took the extraordinary step of banning short selling of Wirecard shares in February 2019. BaFin also filed a criminal complaint against McCrum and another FT journalist for suspected market manipulation. This was the regulator protecting the company from its critics rather than protecting investors from the company.

In late 2019, Wirecard commissioned KPMG to conduct a special audit intended to settle the accusations. KPMG’s report, published in April 2020, did not clear Wirecard. Instead, KPMG stated it could not verify EUR 1 billion in revenues generated through third-party partners because Wirecard had not provided sufficient documentation.

The final collapse came on June 18, 2020. Wirecard’s long-time auditor EY refused to sign off on the 2019 annual accounts. The reason: EUR 1.9 billion that supposedly sat in escrow accounts at two Philippine banks did not exist. The banks confirmed they had no record of the money. Within days, CEO Markus Braun was arrested. Chief Operating Officer Jan Marsalek, believed to have orchestrated the fraud, fled Germany and remains a fugitive as of 2025. Wirecard filed for insolvency on June 25, 2020 – the first DAX 30 company ever to do so.

Shareholders lost billions. Retail investors who had trusted the DAX listing as a seal of quality were wiped out. Corporate clients scrambled to find alternative payment processors. In the UK, Wirecard’s subsidiary had issued prepaid cards for several FinTech startups; those cards were temporarily frozen, locking consumers out of their own funds.

### The Analysis

Wirecard is a case study in what happens when the economics of platform hype override basic verification. The company claimed to have built a low-cost payment processing platform (relevant to M1L2, Economics of Intermediation), but a substantial portion of its stated revenue came from transactions that never occurred. The platform economics narrative (M1L4) was real enough to attract investors, but the underlying numbers were fabricated.

Several warning signs were visible in hindsight. Revenue per employee in Wirecard’s Asian operations was implausibly high compared to industry benchmarks. The reliance on obscure third-party partners to process payments – rather than direct contracts with merchants – was unusual for a company of Wirecard’s claimed

scale. And the fact that EUR 1.9 billion in cash could not be independently verified should have been a red flag much earlier.

The systemic failure extended beyond the company itself. EY audited Wirecard for over a decade without independently confirming the existence of the escrow accounts – a basic audit procedure. BaFin’s decision to suppress criticism rather than investigate it revealed a regulator captured by the company it was supposed to oversee. Germany subsequently overhauled BaFin and strengthened audit oversight rules.

The Wirecard case demonstrates that low-cost FinTech narratives can mask fraud when intermediaries – auditors, regulators, analysts – fail to perform their gatekeeping function. The cost of those intermediaries, often criticized in FinTech discourse, exists for a reason.

### Discussion Questions

1. Using M1L2 (Economics of Intermediation), explain which specific intermediary functions (auditing, regulatory oversight, credit rating) failed in the Wirecard case and why their costs exist in the financial system.
2. BaFin banned short selling of Wirecard shares and filed complaints against journalists. Evaluate whether short sellers and investigative reporters serve a useful regulatory function that official bodies failed to provide.
3. Wirecard’s fraud was enabled by opaque third-party partnerships across multiple jurisdictions. How does this connect to the cross-border payment complexity discussed in M1L1 (Anatomy of a Payment) and the regulatory challenges covered in M7L3 (Regulating the New)?
4. If you were an institutional investor reviewing Wirecard in 2018 – before the DAX inclusion – what due diligence steps could you have taken to detect the revenue inflation?
5. Several FinTech companies still rely on Banking-as-a-Service providers and third-party processors. Could a Wirecard-style fraud happen again in a different segment of the payment value chain?

### Further Reading

- McCrum, D. (2022). *Money Men: A Hot Startup, A Billion Dollar Fraud, A Fight for the Truth*. Scribner.
- KPMG (2020). *Independent Special Investigation: Wirecard AG*. Report dated April 27, 2020.
- German Parliamentary Inquiry Committee on Wirecard (2021). Final Report, Bundestag Drucksache 19/30900.