



Who still visits a bank branch in Germany?

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In focus: Who still visits a bank branch in Germany?

The number of bank branches in Germany has declined sharply, to 28,000 in 2018 from around 40,000 in 2007. This was mainly due to the digitalisation wave, banks' profitability issues and the urbanisation trend. With 33 branches per 100,000 inhabitants though, branch density is still relatively high.

Germans value brick-and-mortar platforms for their banking activities: almost 70% of them visit a branch at least once per month. Most of these visits are for self-service solutions, such as the use of ATMs. However, the still substantial demand for face-to-face interactions requires banks to keep a reasonable branch network, staffed with employees.

Millennials and less wealthy Germans visit branches less often to speak to an employee. On the other hand, clients who have consumer credit or mortgage credit or who have a stock market account or a private pension plan are more likely to visit a bank branch. Interestingly, FinTech users go to branches almost twice as often as non-users. The future of branches will probably involve hybrid solutions where bank employees and technology are merged in a hub-and-spoke model.

Bank lending and deposits of households in Q2 2019

Loans to German households in the second quarter were up by EUR 16.9 bn or 4.4% compared with the previous year, which marked the sharpest increase since 2000. The strong performance was mostly driven by mortgages, which surged by EUR 13.2 bn and look set to rise even more sharply this quarter due to seasonal effects. Up by EUR 2.9 bn, consumer loans also performed well, albeit somewhat less dynamically than in the same quarter a year earlier.

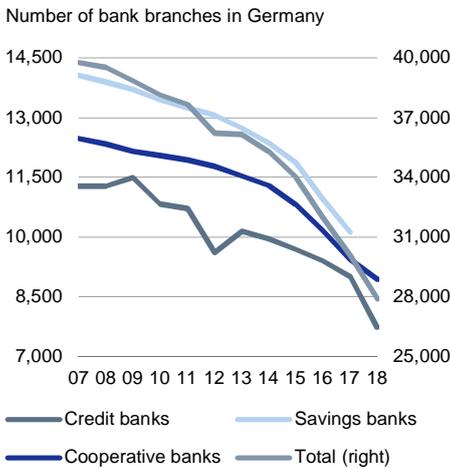
The decline in margins slowed as a result of higher refinancing costs and balance sheet constraints. Margins are possibly near their minimum, with most banks unwilling to accept even lower levels, although competitive pressure is still intensifying, particularly for average loans.

Rising by 5.7% yoy, retail deposits remained buoyant. In absolute terms, the increase came to EUR 34.4 bn and was thus similar to previous years. Nearly the entire surge came from sight deposits.



Who still visits a bank branch in Germany?

Bank branches in continuous decline 1

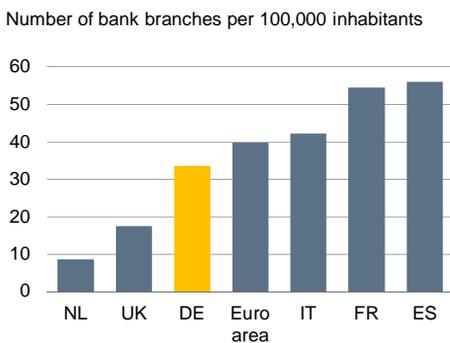


Number of bank branches in steep decline

Thanks to the digitalisation and computerisation of our societies, many banking services are now being offered on the internet. Online banking adoption in Europe is on the rise. In Germany for example, 59% of individuals used internet banking in 2018, up from only 35% in 2007. Thus, many services of bank branches are now provided via automated processes, which has changed the way clients interact with branches.

The number of bank branches in Germany has declined sharply. There were only 28,000 branches in 2018, down from around 40,000 in 2007. The fall accelerated especially after 2013 and was somewhat more pronounced among savings banks and cooperative banks – institutions that are more focused on standard (retail) banking services. With cash management services moving to alternative platforms such as ATMs and online banking, and with the demand for physical cash shrinking in times of growing card and mobile payments, branches have become less important, and many have been closed. In addition, the post-crisis profitability issues of German banks, which triggered a host of cost-reduction measures, should not be underestimated. Moreover, Germany's urbanisation trend has probably also contributed to the decrease since in cities there tends to be a lower number of branches per capita than in rural areas.¹

Still a considerable number of branches in Germany 2



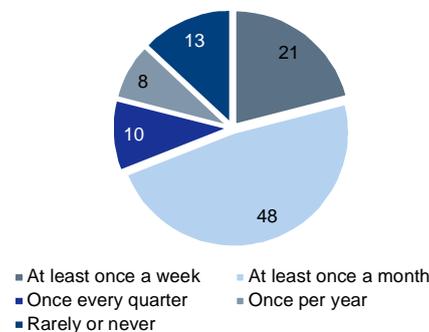
Even before internet banking started to affect the branch-client relationship in many ways, some observers predicted that branches would become irrelevant when ATMs and telephone banking were first introduced. In contrast to that and despite the 30% drop since the beginning of the financial crisis in 2007, branch density is still relatively high: there are 33 branches per 100,000 inhabitants in Germany, which is broadly in line with the European average.

Who still visits a branch?

Germans value brick-and-mortar platforms for their banking activities. In 2017, almost 70% of them visited a branch at least once per month, 21% even every week. Only 13% of Germans visited a branch very rarely or not at all. Interestingly, branch visits have remained relatively stable over the last five years or so. The share of clients who never or very rarely visit branches increased only marginally.

Clients visit branches relatively often 3

Responses to: "How often do you visit the branch of your bank?" in % in 2017



Branch visits serve different purposes. There are visits 1) for self-service solutions such as the use of ATMs, and 2) for face-to-face interactions with bank employees. If clients predominantly visit branches with the former in mind, branches could be converted into ATM hubs with only a small number of employees. Yet this does not seem to be the case, looking at our proprietary dataset of 48,000 clients. On average, 30% of Germans walk into a branch at least once a year to interact with an employee. Even though the demand for self-service solutions is much larger, demand for face-to-face interactions requires banks to keep a reasonable branch network, staffed with employees. So who are the clients who want to speak to a banker?

Certain types of individuals are more likely to make an appointment and visit branches than others. Millennials visit branches less often compared to individuals who belong to Generation X or Boomers, even though the difference is not very large. Two factors might explain this: i) there is a cohort effect, i.e. tech-inclined Millennials conduct more of their banking activities online and, ii) there

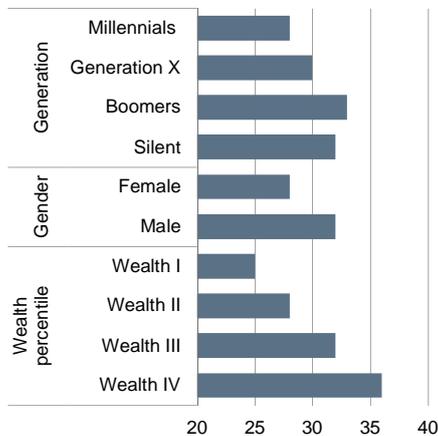
¹ In the German state of Hesse, for example, branch density in rural areas stood at 42 (branches per 100,000 inhabitants) in 2015 compared with 29 in metropolitan areas. See Burkert (2019). Strukturwandel und Beschäftigungsentwicklung in der Finanzbranche in Hessen. IAB-Regional Hessen (1|2019).



Who still visits a bank branch in Germany?

Who visits a bank branch to interact with an employee? **4**

Who visits a branch with an appointment at least once per year, share in %*

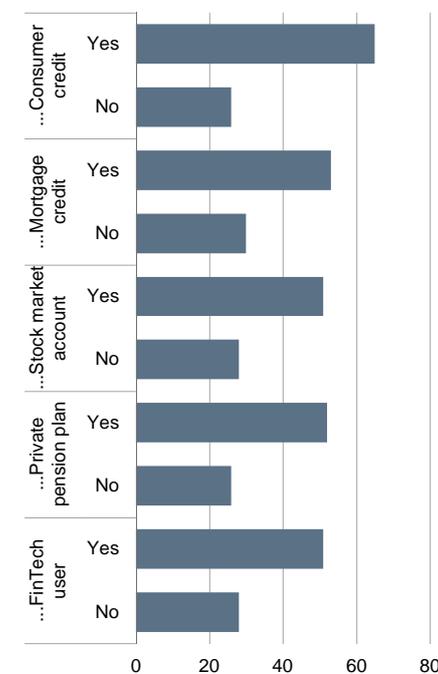


*For a proprietary sample of 48,281 clients
Millennials: younger than 35 years
Generation X: 35-54 years old
Boomers: 55-67 years old
Silent: older than 67 years

Source: Deutsche Bank Research

Why do clients visit a branch? **5**

% of those who have a/are a ... and who visit a branch with an appointment at least once per year



Source: Deutsche Bank Research

is a life-cycle effect, i.e. elderly people have different consumption-saving preferences and therefore tap banking services more often.² Also, men visit bank branches more often than women. Branch visits increase with wealth as well. Individuals who belong to the highest wealth quartile are 10 pp more likely to visit a branch than individuals who belong to the lowest. This might be a reflection of wealthier individuals' higher demand for banking services in general. Another interpretation could be the age effect as elderly individuals have accumulated higher wealth on average.

Why do clients visit a branch?

There are several reasons why clients might need human support and prefer to interact with bank employees. Basic services can be carried out via bank websites. But for complex decisions and products, personal consultation is usually necessary despite the availability of online alternatives. Such decisions may include loan inquiries, opening an account, managing large transactions, getting personal financial advice, planning retirement savings or making complaints.

Of those who visit a bank branch, clients who already have consumer credit or mortgage credit are 2.5x and 1.8x respectively more likely to visit a branch than clients who do not owe such debt. Potential motivations include receiving credit information, making off-the-schedule payments or refinancing existing loans. This implies that employees who are specialised in mortgage and consumer lending will probably remain an integral part of the branches in the near future. Clients who have a stock market account are twice as likely to visit a branch as otherwise. The same is true for clients who have a private pension plan. These clients most likely require personal help with their investments from qualified bank employees. Financial advisory is an important part of the branch offering, at least for now and especially for tailor-made sophisticated products. For less sophisticated matters, bank websites and financial technology (FinTech) tools such as financial planners or robo-advisors can already help clients plan their finances on their own. Interestingly though, clients who use a FinTech application are twice as likely to visit a branch as otherwise. This might indicate an elevated interest among FinTech users in financial products in general.

Future of bank branches

Branches will probably remain key access points for many banking services in the future. Although online solutions replace standard services, they are often an imperfect substitute, at least to date, for the entire spectrum of services offered at branches. It is also important to remember that branches have strategic value in increasing deposits.³ A properly staffed branch network can still address client demand on various fronts. That said, the branch model of the past is undergoing fundamental change.

The future of branches will probably involve hybrid solutions where bank employees and technology are merged in a hub-and-spoke model. This requires investing in technology and mobile solutions. For more complex problems, banks might consider consolidating their know-how at large branches while reducing their offerings at small ones. More operational solutions include introducing longer opening hours on some working days or adding in-house real estate services. A successful transformation will not only increase banking profitability but will also be of benefit to customers and economic growth.

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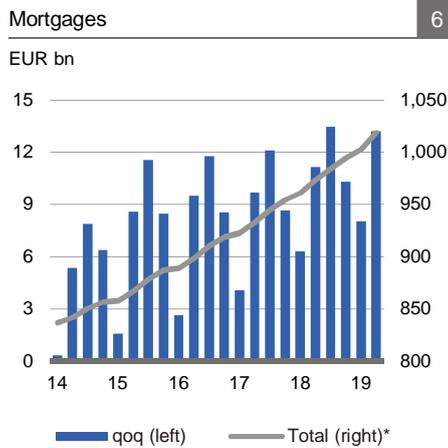
² See Anenberg, Chang, Grundl, Moore and Windle (2018). The Branch Puzzle: Why are There Still Bank Branches? FEDS Notes. August 20, 2018.

³ See De Young (2001). The financial performance of pure play Internet banks. Federal Reserve Bank of Chicago Economic Perspectives. 25: no 1, 60-75.



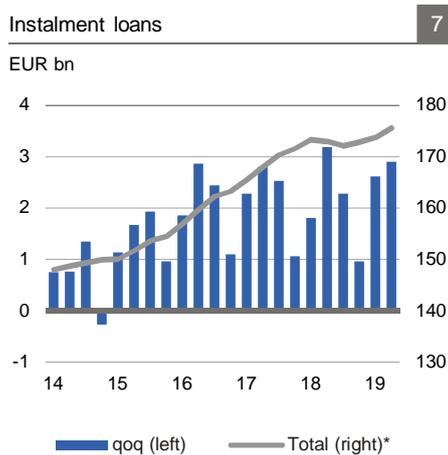
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Bank lending and household deposits



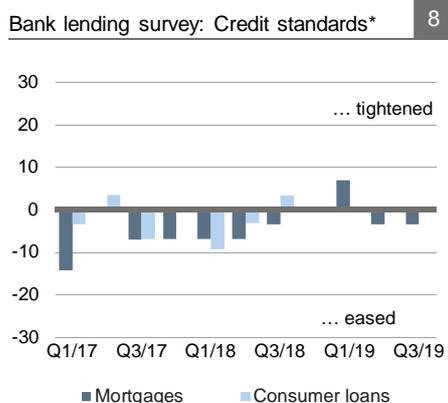
*includes significant reclassification in Q3 18.

Source: Deutsche Bundesbank



*includes significant reclassifications in Q2 & Q3 18.

Source: Deutsche Bundesbank



*Q3/19 expected value

Source: Deutsche Bundesbank

Loan volumes

Lending to private households hit new record highs in Q2 2019. Loan volumes jumped by EUR 16.9 bn compared with the previous quarter, pushing year-over-year growth up to 4.4% – both the sharpest increases since 2000.

The strong performance was above all due to mortgages, which surged by a record EUR 13.2 bn in Q2. As a result, annual growth accelerated to 4.6%. This, too, was the fastest rate since 2000. For the current quarter, which usually marks the seasonal peak, a further uptick in absolute terms can be expected. The largest increases in Q2 were reported by cooperative banks (+ EUR 4.2 bn) and savings banks (+ EUR 3.9 bn). Large banks expanded their portfolios by EUR 2.4 bn. Low interest rates and expectations of further rising house prices continued to drive lending. Near term, this is unlikely to change. In the first half of 2019, residential house prices increased by on average 7% compared with the same period a year earlier. On a medium-term horizon, housing demand is hardly likely to ease, especially in the metropolitan areas. Moreover, supply-related bottlenecks such as lack of skilled labour and building plots, but also more restrictive building quality requirements, also push up prices. Over the past years, however, private households have also benefitted from rising disposable incomes. The debt-to-income ratio hence remains flat at around 82%⁴, despite a much higher outstanding volume of bank loans – particularly mortgages.

Consumer loans, at + EUR 2.9 bn, expanded somewhat less dynamically than in the same quarter a year ago. Still, annual growth remained buoyant, at 5.1%. Regional banks in particular (+ EUR 2.3 bn), including many foreign banks, extended new consumer loans and expanded their portfolios. Large banks (+ EUR 0.4 bn) and savings banks (+ EUR 0.2 bn) contributed moderately to growth, whereas volumes were flat at cooperative banks. Since 2015, consumer lending has been on a steady rise thanks to solid economic growth, even though interest rates have decreased only marginally – by roughly one percentage point. In view of the slowing economy, however, this trend may no longer be sustainable. Whilst unemployment in Q2 remained at the extraordinarily low level of 3.1% (in the international definition) and employment again picked up slightly, many households expect the labour market to deteriorate amid the trade conflicts and Brexit.⁵ Other loans inched up moderately, by EUR 0.8 bn qoq; debit balances were unchanged. In both segments, annual growth continued to be negative.

Against this backdrop, only a tiny share of banks (3%) expect demand for consumer loans to rise in the current quarter. According to the Bank Lending Survey (BLS), 10% of banks still reported an increase in Q2. Demand for mortgages clearly surprised to the upside in the spring, with more than one-third of banks reporting an acceleration. However, as usual, banks are cautious regarding future housing loans; only 10% expect demand to rise in Q3.

Credit standards for approving loan applications

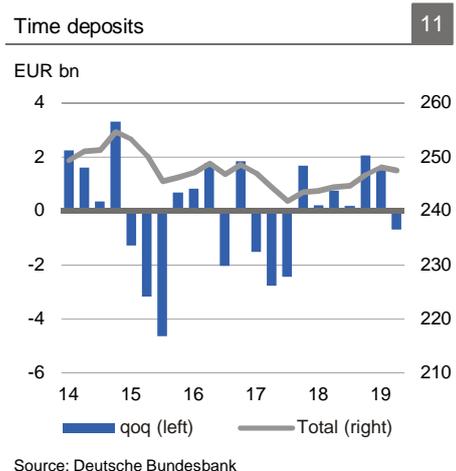
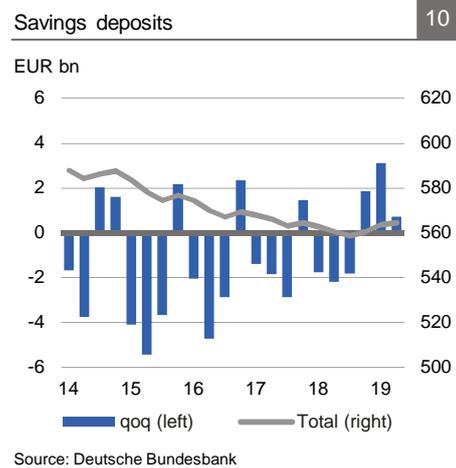
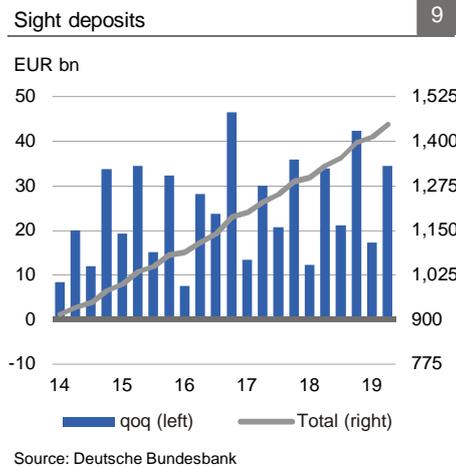
After turning more restrictive in the winter quarter, credit standards for mortgages were eased again in the second quarter, albeit only marginally (by 3% of banks; the same is expected for the current quarter). Still, 7% of banks reported a higher share of rejected mortgage applications. Standards for consumer loans remained unchanged, and the same is expected for Q3. The share of rejected loan applications declined slightly.

⁴ ECB (2019). Household Sector Report Q1. 7 August 2019, p. 25.

⁵ GfK (2019). German income prospects suffer setback, Findings of the GfK Consumer Climate Study Germany for June 2019. Press release. 26 June 2019.



Who still visits a bank branch in Germany?



Terms and conditions governing loan contracts

After margins for average mortgages had narrowed sharply over the past two years, only 3% of banks reported a further decline in Q2. 7% even raised margins on riskier mortgages. A similar trend was seen in consumer loans. Margins for average loans shrank at 3% of banks, those for riskier loans were unchanged. In all instances, a further decline in margins was dampened by higher refinancing costs and balance sheet constraints. Margins are possibly near their minimum, with most banks unwilling to accept even lower levels, although competitive pressure is still intensifying, particularly for average loans.

Deposit volumes

Retail deposits continued to grow strongly in the second quarter, up by 5.7% yoy. In absolute terms, the increase came to EUR 34.4 bn and was thus similar to previous years. Private households primarily boosted their sight deposits, up by EUR 34.4 bn. Time deposits recorded outflows of EUR 0.7 bn, whilst savings deposits rose by the same amount. This clearly illustrates once more that the hunt for yield is not the leitmotif of private households when investing. Although the real yield on cash and deposits of German households has been negative since 2016, their share of total financial assets is still at 40% and thus unchanged since the financial crisis. Only the maturity profile was shortened.⁶

All major banking groups gained new deposits in Q2 and could thereby completely fund their retail credit growth. Inflows at savings banks (EUR 9.9 bn), large banks (EUR 7.6 bn) and cooperative banks (EUR 6.6 bn) by far exceeded credit growth. At regional banks, the rise in deposits and new loan volumes was balanced, at EUR 3.4 bn.

Interest rates

In Q2, overnight deposit rates were stuck at 0.01% (EMU average: 0.03%). Given expectations of further monetary loosening, rates are unlikely to rise. On the contrary: German policymakers are thinking out loud about banning negative interest rates on deposits within certain volume limits. The average rate for new mortgages was down by 17 bp to a new record low of 1.63%, compared with 1.95% in the EMU on average. The trend mirrors 10-year Bund yields, which dropped to -0.33% in June (down from -0.07% in March). Rates for consumer loans, by contrast, edged up by 33 bp to 6.06%, but remained below the EMU average of 6.24%.

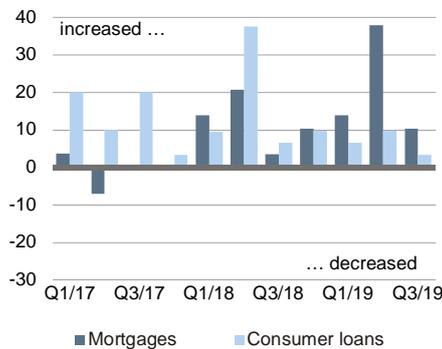
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⁶ Deutsche Bundesbank (2019). Zur Entwicklung der realen Portfolioerrenditen privater Haushalte in Deutschland. Monatsbericht. August 2019, pp. 33-36.



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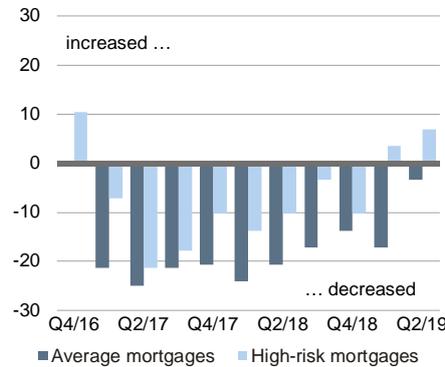
Bank lending survey: Credit demand* 12



*Q3/19 expected value

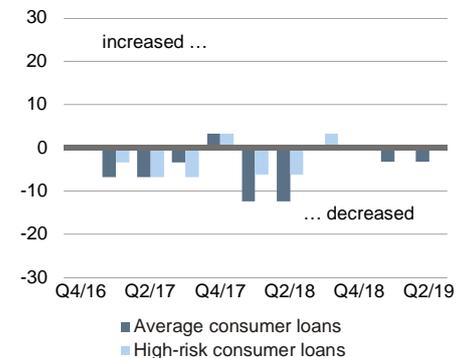
Source: Deutsche Bundesbank

Bank lending survey: Mortgage margins 13



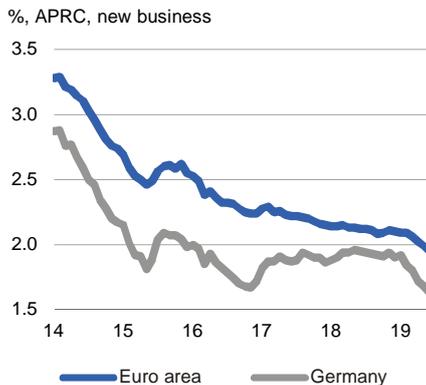
Source: Deutsche Bundesbank

Bank lending survey: Consumer credit margins 14



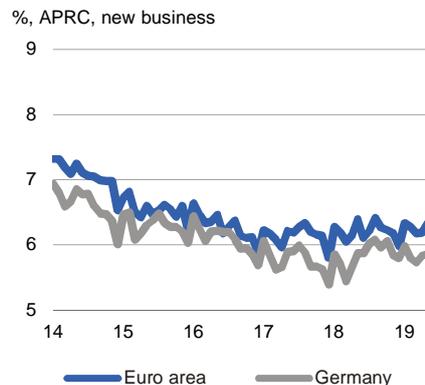
Source: Deutsche Bundesbank

Mortgage rates 15



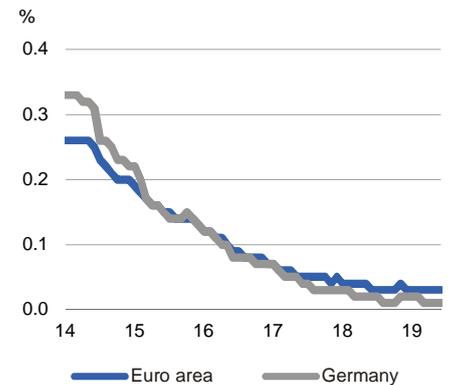
Source: ECB

Consumer credit rates 16



Source: ECB

Overnight deposit rates 17



Source: ECB

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