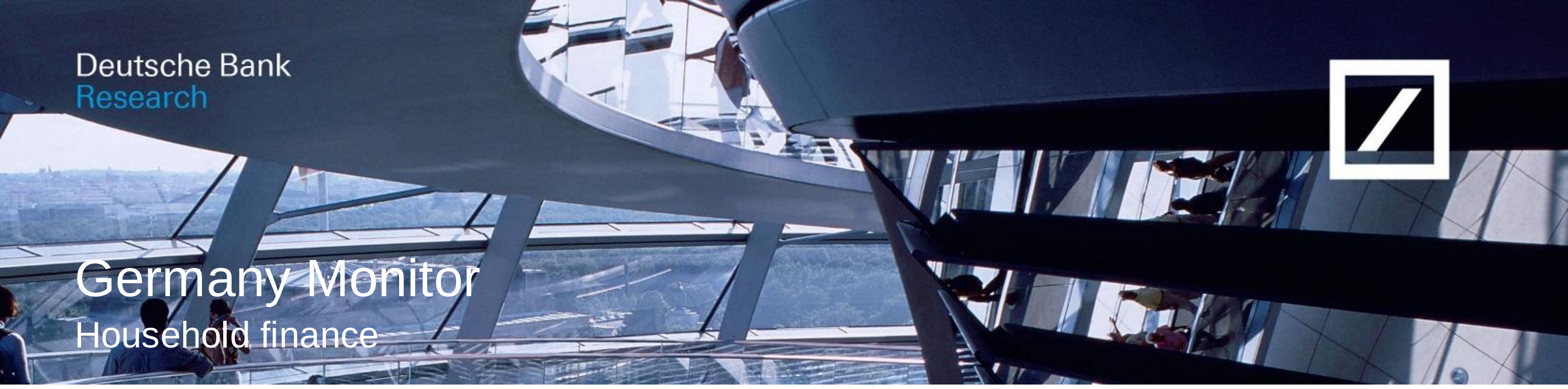

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Cash, electronic or online: How do Germans pay?

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In focus: How do Germans pay?

Germans are known as heavy cash users. In 2017, they paid cash for most of their purchase transactions – 74% by number and 48% by value. If German consumers do not use cash, they almost always opt for electronic payment methods: in 2017, consumers made an estimated 17 bn electronic payments.

If paying electronically, German consumers like direct debits and card payments best. Credit transfers and E-money payments are used less often.

Germans initiated almost one-fifth of electronic payments via the internet in 2017. Mobile payments were rarely used but this will likely change given a number of new mobile payment services came on the market in 2018. Online and mobile payments offer consumers new ways to initiate payments. These are usually settled via established infrastructures though.

Bank lending and deposits of households in Q3 2018

In Q3, German households took out an impressive EUR 16 bn in net new loans, the highest quarterly figure since the introduction of the euro. Of this, EUR 13 bn came from mortgages with yoy growth increasing to 4.8%. Consumer lending lost some pace (EUR 2.2 bn qoq / 5.1% yoy). If mortgage rates remain around current levels, mortgage lending will probably expand by more than 5% next year.

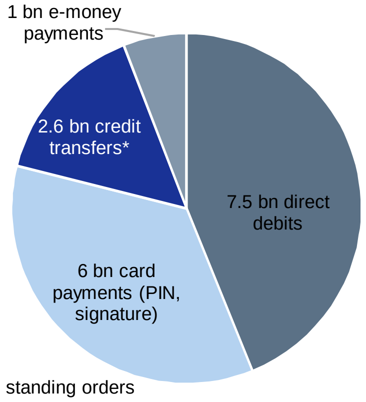
Increased competition led to narrower mortgage margins. Overall, however, banks might be turning watchful to potential corrections in housing markets given rising interest rates in the medium term. In Q3, banks rejected more loan applications than in the previous quarter.

With EUR 20 bn qoq (4.9% yoy), household deposit inflows were buoyant for a Q3. While German households increased their savings rate to 10.7%, shortening of the deposit maturity profile persists.

Cash, electronic or online: How do Germans pay?

Which payment methods do German consumers use - apart from cash? 1

Number of payments by method, 2017

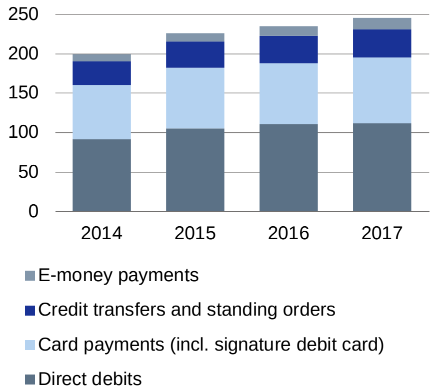


*incl. standing orders

Sources: Bundesbank, ECB, Eurostat, EBA Clearing, Deutsche Bank Research

Digital payments are growing 2

Number of payments per person aged above 14



Sources: Bundesbank, ECB, Eurostat, EBA Clearing, Deutsche Bank Research

Germans are known as heavy cash users. In 2017, they paid cash for most of their purchase transactions – 74% by number and 48% by value. Cash is by far the most popular payment method, at least at physical and virtual points-of-sale. But of course, consumers do not make only point-of-sale payments, which is why the above figures exaggerate Germans' preference for cash.

If German consumers do not use cash, they almost always opt for electronic payment methods. Paper-based credit transfers and checks are rare. In 2017, consumers made an estimated 17 bn electronic payments using different processing and settlement methods: direct debits, card payments, credit transfers and e-money payments.

Consumer payments by type of settlement

Direct debits are the most popular electronic payment method among German consumers, amounting to an estimated 7.5 bn transactions in 2017 with a total value of about EUR 2.5 tr. Consumers like to use this comfortable method to pay regular bills, for example for electricity, insurance premiums, subscriptions or contributions to clubs or associations. Hence, every German above the age of 14 paid on average 105 bills worth EUR 330 each by direct debit during the past year.

The large majority of the 6 bn card payments worth a total of EUR 357 bn was probably triggered by consumers. On average, every "adult" German thus used cards 84 times in 2017 to pay EUR 60. Germans prefer debit cards[1] for payments in shops (67 times per year, each worth EUR 54). In most cases, customers are required to enter their PIN; in some cases, their signature is sufficient ("ELV payment").[2] Credit cards[3] are used more rarely (for 17 payments worth EUR 81 on average); however, they are popular for online shopping (so-called "card not present" or CNP transactions).

Consumers are much less likely to use credit transfers and standing orders than direct debits or card payments. In 2017, the estimated number of transactions was 2.6 bn (or 36 for each person aged above 14).

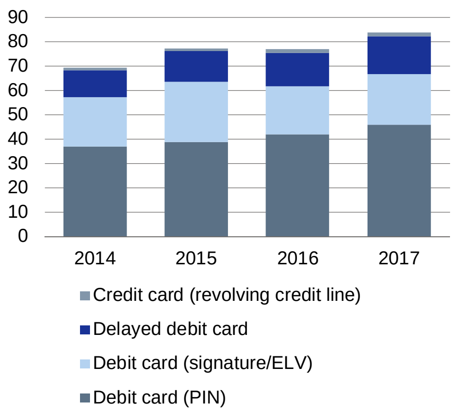
E-money payments are becoming increasingly popular with German consumers.[4] On average, each German aged above 14 made an estimated 15 e-money transactions worth EUR 42 in 2017. PayPal is the predominant provider in Germany. However, since all European PayPal payments are statistically captured in Luxembourg, the German number can only be estimated. Based on Germany's share in aggregate European online sales, about 1 bn PayPal payments were made by German users. On a side note, providers use the unwieldy term "e-money payments" only in their terms and conditions. For marketing purposes, they usually refer to them as "online payments" – a term which sounds catchier, even though it is not fully accurate.

1 Usually a girocard in Germany (formerly "EC card"). The amount is debited to the cardholder's account on the following workday.
2 ELV payments are processed like direct debits and enter the statistics as such. In 2017, Germans made on average 46 debit card payments using their PIN and 21 by signing the cash slip (ELV).
3 The majority of credit cards in Germany are actually delayed debit cards. All payment obligations incurred during a four-week settlement period are debited in full to the cardholder's bank account at the end of this period. "Real" credit cards enable the cardholder to pay the accumulated amount in instalments, using an interest-bearing credit line.
4 E-money payments are defined as transfers of e-money between client accounts managed by the same e-money institution. Bank transfers or card payments are necessary to deposit or withdraw money from an e-money account.

Cash, electronic or online: How do Germans pay?

Card usually means debit card 3

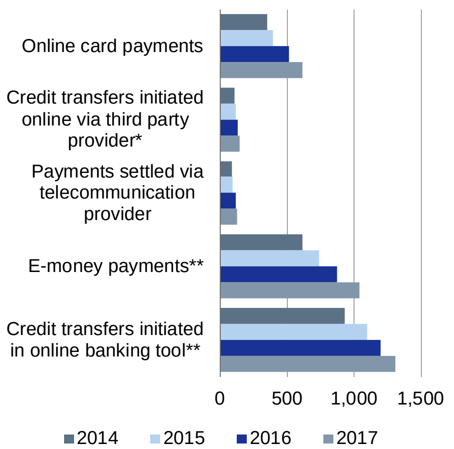
Number of card payments per person aged above 14



Sources: Bundesbank, ECB, Eurostat, Deutsche Bank Research

3.2 bn payments initiated online 4

Number in m, 2017

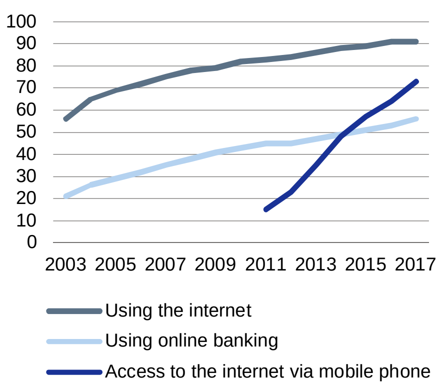


* E.g. Giropay, Sofortüberweisung
** Estimate

Sources: ECB, Eurostat, Deutsche Bank Research

First internet, then online banking – first mobile internet, then mobile banking? 5

Number of users in % of the German population



Sources: Eurostat, Deutsche Bank Research

In fact, all types of payments made via the internet are colloquially called "online" payments, as users are usually not particularly interested in the details of the settlement procedure. They only see how a payment is initiated, not how it is processed. And payment service providers offer a plethora of new, innovative solutions, particularly on the internet and mobile phone. These online and mobile payments are then usually processed via the established settlement procedures.

Online or mobile payments

Of the total 17 bn electronic payments originated by consumers, an estimated 3.2 bn were made online in 2017. 616 m or 10% of all card payments were initiated "remotely", mostly online. And 147 m credit transfers (6%) were made via internet applications offered by specialised providers such as Sofortüberweisung or Giropay, which access the payer's bank account. In addition, 126 m payments were settled via landline or mobile phone bills. Consumers used these payment methods mainly for online shopping or online bookings. Most likely, the lion's share of the 1 bn e-money payments was used for these purposes, too. However, most online payments (up to 1.3 bn transactions) were probably initiated via banks' online banking applications. More than half of all Germans use this tool, mainly for credit transfers. Of course, such online banking transactions include not only payments for online shopping, but also for invoices by craftsmen or for large purchases.

Since the official statistics do not include full information about the type of payment initiation, there is no comprehensive data about how Germans pay for their online purchases. For example, there are no figures on how many direct debits are used to pay for online shopping or whether the retailer or an intermediary wallet provider (such as Amazon Pay) submits such direct debits.

And what about mobile payments? In 2017, only a minority of 5-7% of the participants had used their smartphones to pay, as shown in several representative surveys.[5] Paying via smartphone can combine stationary and online-based options in one app and even enable direct money transfers between two users (person-to-person/P2P). Contactless payments with plastic cards carrying an NFC (near field communication) chip are also regarded as mobile payments. At the beginning of 2018, 15% of all consumers had already used this method.[6] The share of mobile payments, be it via cards or smartphones, is likely to grow. More than one-third of the terminal owners already accepted contactless NFC payments in 2018, and more than 34 m cards with an NFC chip have been issued to customers.[7] Moreover, 73% of Germans have mobile phones with internet access. This year, providers with a large customer base have marketed several new solutions, for example apps by commercial banks, savings banks, cooperative banks, Google Pay and Apple Pay. Mobile payment solutions are, essentially, available across Germany, and customers can choose between options – from cash to mobile payments.

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[5] Sources: Deutsche Bundesbank, Postbank, Oliver Wyman.
[6] Sources: Postbank, Allensbach.
[7] Source: GfK.

Bank lending and deposits of households

Loan volumes

In Q3, German households took out an impressive EUR 16 bn in net new loans, the highest quarterly figure since the introduction of the euro. Q3 lending usually marks the peak of the year, which also looks to be the case this time around. With the remarkable surge in Q3, yoy growth accelerated to 4%.

Mortgages made up the lion's share of this increase, as always (up EUR 13 bn qoq). As a result, yoy growth jumped to 4.8% from 4.1% in Q2. Cooperative banks lent a net EUR 4.2 bn in new mortgages, while around EUR 3.8 bn and EUR 3.7 bn came from credit banks and savings banks respectively. Market shares in mortgages by banking group remained unchanged. Quarterly variations in mortgage lending are largely explained by lending in the previous quarter, changes in mortgage rates and seasonality. If mortgage rates continue to hover around current levels, yoy mortgage lending growth will most likely reach more than 5% next year.

Growth in consumer loans lost some pace in Q3 (EUR +2.2 bn versus EUR +3.1 bn in Q2), with yoy growth falling slightly to 5.1%. The entire increase in consumer lending came from credit banks, whereas savings banks and cooperative banks held their loan books stable. Other loans were flat in Q3.

According to the bank lending survey, demand for mortgages did not change in Q3. A net 14% of banks expect mortgage demand to pick up in the current quarter, though. In Q3, property prices were up by 2% qoq and some 6% yoy, and higher prices by themselves led to rising mortgage lending volumes. With housing construction not able to catch up with demand, prices will probably increase even further. That being said, high house prices might finally put some pressure on mortgage demand. With regard to consumer loans, only a small 6% of banks reported increased demand in Q3, and the same share is forecasting demand to go up in Q4.

It is unclear if the still favourable labour market conditions will translate into an expansion in household credit demand in Q4. On the one hand, job creation driven by a favourable macroeconomic backdrop as well as wage increases due to labour supply shortages are leading to considerable disposable income growth in Germany (up by 0.5% qoq and 3.1% yoy in Q3). On the other hand, households' debt-to-income ratio has been flat at 84% since 2015 and is down from 91% in 2010. Put differently, recent income growth did not spell more-than-proportional loan demand as households kept their leverage largely constant.

Credit standards for approving loan applications

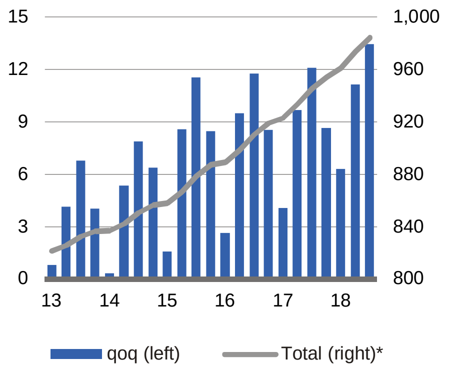
In Q3, only a tiny 3% of banks eased mortgage standards. A net 7% of banks cited competitive pressure from other banks as a decisive factor. Consumer loan standards remained virtually flat. For the current quarter, banks are cautious. They foresee no modifications in standards for mortgages or consumer loans. 10% of banks reported a higher number of rejected mortgage applications qoq. In recent years, property prices have soared, as has the value of loan collateral, but now banks might be keeping a more watchful eye on potential corrections in housing markets. Indeed, property prices rose in part on the back of low mortgage rates, which might rise slowly in 2019 and beyond.

Terms and conditions governing loan contracts

For those average mortgage loans that were granted, margins narrowed as indicated by a net 17% of banks. 21% of banks named increased competition as the dominant factor behind this. Margins for riskier mortgage loans as well as for consumer loans, both average and riskier, were virtually constant.

Mortgages 6

EUR bn

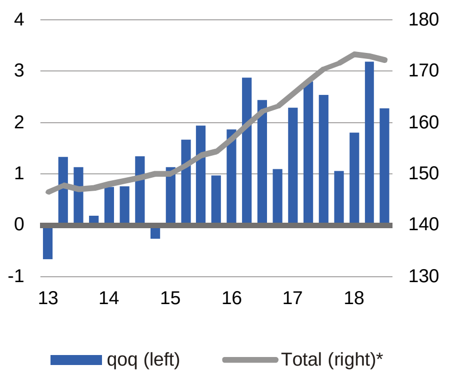


*includes significant reclassification in Q3 18.

Source: Deutsche Bundesbank

Instalment loans 7

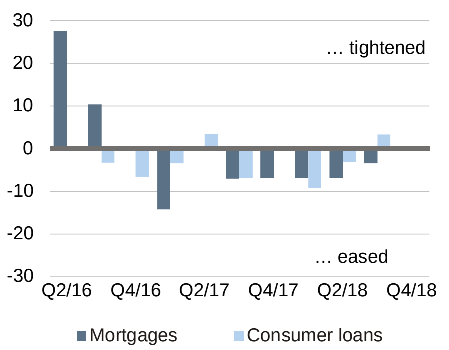
EUR bn



*includes significant reclassifications in Q3 13, Q2 & Q3 18.

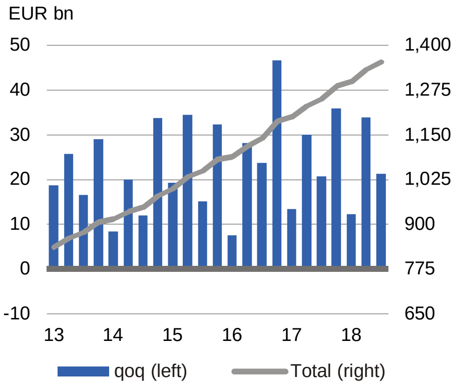
Source: Deutsche Bundesbank

Bank lending survey: Credit standards* 8



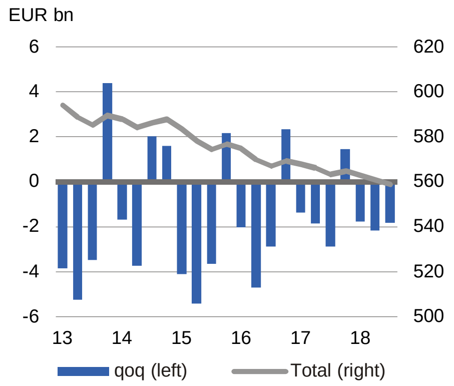
*Q4/18 expected value
Source: Deutsche Bundesbank

Sight deposits 9



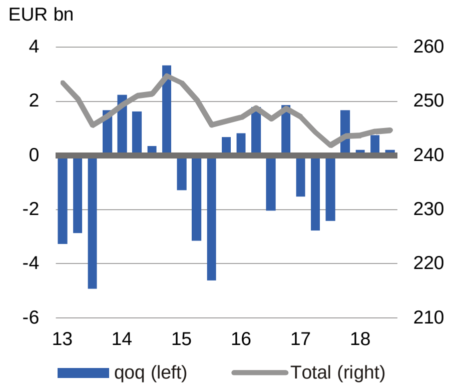
Source: Deutsche Bundesbank

Savings deposits 10



Source: Deutsche Bundesbank

Time deposits 11



Source: Deutsche Bundesbank

Deposit volumes

In line with seasonal trends, household deposit inflows lost some pace but remained buoyant for a Q3 (EUR +20 bn qoq). Yoy growth reached a remarkable 4.9%. Overall, German households increased their savings rate for the fifth time in a row to 10.7%, up from 9.7% in Q2 2017. The strong 0.5 pp jump in Q3 might in part be related to consumers' reluctance to buy new (diesel) cars given current uncertainty regarding city driving bans.

As in the previous quarter, the entire surge came from sight deposits. The largest boost was at savings banks (EUR +8.5 bn), followed by cooperative banks (EUR +7.1 bn) and credit banks (EUR +4.8 bn). Savings deposits were down by EUR 1.8 bn, while time deposits were largely flat. The shortening of the deposit maturity profile therefore persists. Sight deposits now account for 63% of household deposits, up from 51% five years ago.

Interest rates

In Q3, overnight deposit rates came down by 1 bp to 0.01%. Eonia rates have been stable in negative territory since mid-2016 (currently -0.36%) and are unlikely to change significantly any time soon – similarly, deposit rates will probably not move much in the next two to three quarters. However, potential negative spillovers from a hard Brexit to the banking sector could lead to a recalibration of risks and affect benchmark rates and overnight rates alike.

Rates for new consumer loans climbed by 9 bp to 5.96% in Germany in Q3. This is slightly below the EMU average of 6.27%. Mortgage rates were minimally down by 3 bp to 1.92% in Germany, also a somewhat lower figure than the EMU average of 2.09%.

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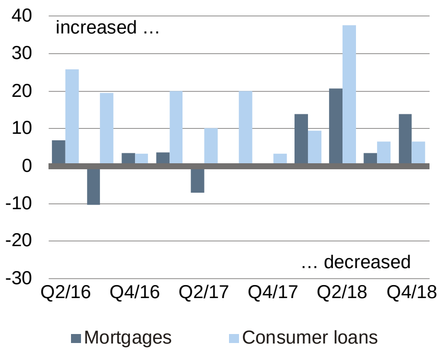
Cash, electronic or online: How do Germans pay?

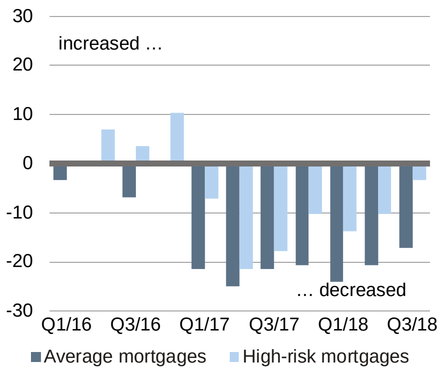
Bank lending survey: Credit demand* 12



*Q4/18 expected value

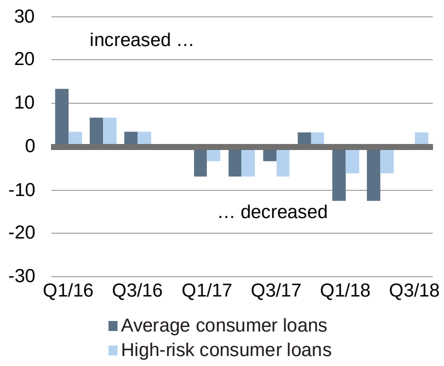
Source: Deutsche Bundesbank

Bank lending survey: Mortgage margins 13



Source: Deutsche Bundesbank

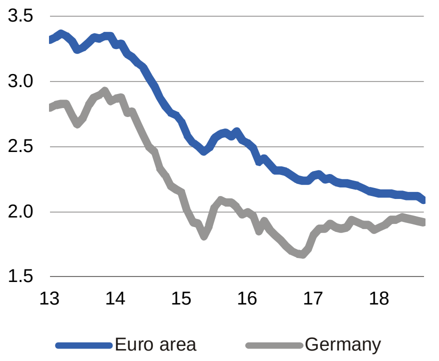
Bank lending survey: Consumer credit margins 14



Source: Deutsche Bundesbank

Mortgage rates 15

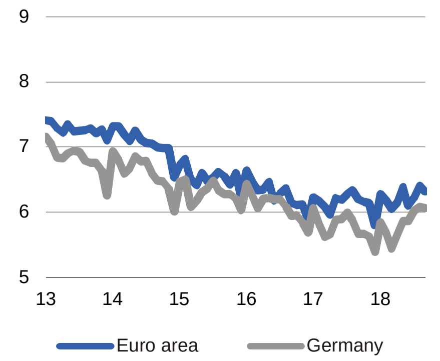
%, APRC, new business



Source: ECB

Consumer credit rates 16

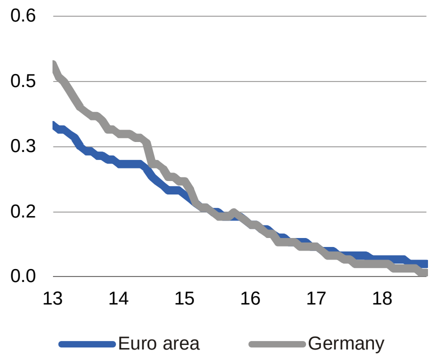
%, APRC, new business



Source: ECB

Overnight deposit rates 17

%



Source: ECB