Online banking and demography
Future generations will take online (banking) for granted

Demand for web-based (mobile) financial services is set to jump in the medium to long term. In 2030, for example, a total of nearly 44 million Germans are expected to be familiar with online banking services. By comparison, the figure in 2010 was only slightly over 27 million. This forecast will be driven by several trends:

Based on the 12th coordinated population projection of Germany’s Federal Statistical Office, two possible scenarios suggest that Germany’s population will decline and German society will steadily age in the years ahead. Overall, the population in scenario 1 (net immigration: 100,000 per year) declines by 20.7%, whereas the population in scenario 2 (net immigration: 200,000) shrinks by 14%.

Over the past decade the share of the population that uses the internet has continued to increase. In particular, among the younger age cohorts between 14 and 39 over 90% of the population surfs the internet regularly. By contrast, there is still considerable latent growth potential in the 50+ cohort.

Several digital trends can be observed which will reinforce the future share of internet and tech-savvy people in the overall population. In the long term, digital structural change will result in people taking online banking services for granted. The internet will be omnipresent.

Total number of online banking users in Germany

<table>
<thead>
<tr>
<th>Year</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
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</thead>
<tbody>
<tr>
<td>2010</td>
<td>20,000</td>
<td>20,000</td>
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<tr>
<td>2020</td>
<td>30,000</td>
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<tr>
<td>2030</td>
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<td>2050</td>
<td>60,000</td>
<td>70,000</td>
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<td>2060</td>
<td>70,000</td>
<td>80,000</td>
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</tbody>
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Sources: Federal Statistical Office, DB Research
Demographic change in Germany until 2060

Based on the 12th coordinated population projection, the figures below describe two possible scenarios of the demographic changes facing Germany. They are obtained by combining different assumptions on fertility, life expectancy and Germany’s balance of immigration and emigration. The results of both calculations suggest that Germany’s population will decline and German society will steadily age in the years ahead.

Scenarios 1 and 2 define the limits of a range within which the population size and age structure will develop, provided the current demographic trends continue. The lower and upper limits of this range refer to a medium trend of population development in keeping with the 12th population projection for Germany.

Scenario 1 (medium population lower limit) assumes that fertility remains at its present level of 1.4 children per woman, life expectancy increases by about eight years for men and seven years for women, and net immigration amounts to 100,000 people per year.

Scenario 2 (medium population upper limit) assumes the same parameters concerning fertility and life expectancy. Only net immigration differs, amounting to 200,000 people per year.

Decline and ageing, but more people will be tech-savvy

Overall, the population in scenario 1 (net immigration: 100,000 per year) declines by 20.7%, whereas the population in scenario 2 (net immigration: 200,000) shrinks by 14%. There is only one age cohort which increases in size. In 2060, Germany will have 29.9% more people over 65 years of age in scenario 1, and 35.5% more in scenario 2. The strongest downturn is in the 16-24 age cohort, with the two scenarios showing equal declines.

In the following, these demographic scenarios and the developments to date in the areas of internet use and online banking – in combination with the currently observable trends in digital structural change – will provide the basis to derive assertions on future numbers of internet users and online banking customers. Owing to technological advances, particularly the dynamic growth of web-based information and communication technologies (ICT), these assertions may only be regarded as general approaches to the subject. It is neither possible to precisely predict how many people will actually make use of online banking.

Sources: Federal Statistical Office, DB Research

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2. The base assumption is that men’s average life expectancy at birth will be 85.0 years and that of women 89.2 years in 2060.
banking services going forward, nor is it possible to determine which technology will be used for online banking in 2050. Twenty years ago, nobody even dreamed that people today would be able to constantly access the worldwide web using pocket-sized mobile devices wherever and whenever they liked.

Status quo of internet and online banking users

Over the past decade the share of the German population using the internet has swollen to a total of roughly 56 million (as of 2011). In particular, among the younger age cohorts between 14 and 39 over 90% of the population is more or less routinely familiar with the internet. By contrast, there is still considerable latent growth potential in the 50+ cohort. Many people in this cohort have yet to come into contact with the internet in either their private lives or on the job. However, changes are shaping up on the horizon: the sharpest increase can be observed in the 60-69 cohort. There, the share rose by 6.4 percentage points within two years, to 60.4% (2012).

The proportion of online banking users in relation to total internet users has also grown over the past few years. In 2011, one internet user in two utilised online banking offers from financial service providers. The 65+ age cohort posted the fastest growth between 2006 and 2011. On average, the share of the pensioner generation increased by over 15% per year. Given the relatively low starting level this growth rate is set to continue for some time. Some 69% of 25 to 44-year-olds were familiar with online banking services last year, while the figure among 45 to 64-year-olds was only 51%. There were virtually no changes in the cohort of those aged 10-15. This young generation had a share of less than 3% on an annual average.

Digital structural change

Several digital trends can be observed which will reinforce the future share of internet and tech-savvy people in the overall population. There is a high adoption speed of (web-based) technologies which implies decreasing product life cycles, stronger competition and increasing complexity of products, services and processes.

The relatively straightforward diffusion of technology via mobile devices enables many people to benefit from the latest technologies relatively promptly and inexpensively as a result of increasing ICT convergence. In future, a sharper focus will be trained on the linking of everyday objects that communicate with one another and make people’s routines more amenable. The respective technologies will be integrated as flexibly as possible into the environment and people’s everyday routines (internet of things). Modern interfaces between man and machine will thereby create new (digital) business models.
Moreover there is a strong demand for virality and social networking platforms driven by the human need for social connectivity.

Today – but also in the years to come – many customers still value their bricks-and-mortar bank branch for the personal service they receive and the opportunity to validate their opinions during an appointment with their advisor. The majority of offline purchases are preceded by an online research process. This ROPO effect (research online / purchase offline) applied to 48.6% of new contracts in 2010.3

Besides the effect that people change their consumer and media usage behaviour, there is also an increasing proliferation of mobile devices and digital content “on demand”. Everybody wants to be “always on” to stream digital content. That is the reason why future generations won’t distinguish between offline and online, i.e. by 2060 nearly everybody (with few exceptions) in every age cohort will be an active or passive user of the internet.

Age cohort and behavioural effects

Against the background of the trends discussed above, the increasing size of the internet and tech-savvy population and the generational development as regards online banking users, we have to consider two demographic effects – the age cohort and behavioural effects.

The cohort effect (ageing effect) says that the behavioural pattern of a young generation continues as it grows older: for example, if the 25-44 age cohort shows a 65% share of online banking users in 2020, at least 65% of the 45-64 cohort will also be online banking users some 20 years later.

In addition, the behavioural effect can spread, i.e. the number of online banking users from the younger generation not only stays valid, but instead it can also further increase if the potential within the age cohort has not yet been exhausted. Both effects combined result in the fact that the number of online banking users will remain at least constant in generational terms and further user potential may be tapped within the cohort.

Online banking users in the distant future

In contrast to the relatively rapid growth of internet user numbers, the number of online banking users is set to increase only moderately for the time being during the upcoming years of the digital structural transition, because the barriers to online banking are (still) relatively high especially from the user’s perspective. The willingness of consumers to use digital financial services hinges on many (in some cases: soft) factors. Not only security concerns

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but also customer acceptance, trust, design and no doubt user-friendliness will all play a crucial role. Moreover, also in future there will be people who will deliberately decide against using online banking.

Nevertheless, as things stand today the supply of digital (mobile) financial services shows sizeable growth potential and offers considerable scope for a further expansion of web-based online services. For this reason, the demographic scenarios described above in combination with the trends of digital structural change could give rise to the following outlook on a long-term horizon:

A clear picture is emerging for established and new providers of web-based (mobile) financial services. While the scenario assumptions state that the German population will steadily decline and society will age, people will increasingly adapt their routines and adopt a more positive attitude towards (mobile) internet technologies, i.e. the demand for web-based and mobile financial services is set to increase in the medium to long term.

For example, according to scenario 1 a total of nearly 44 million Germans are expected to be familiar with online banking services in 2030 (scenario 2: 44.4 million). By comparison, the figure in 2010 was only slightly over 27 million. Up to 2030 the total user numbers in the two scenarios differ only marginally from one another. Subsequently, major deviations can be observed on account of the differences in net immigration. The assumptions on generational development within the age cohorts (ageing and behavioural effects) continue equally in both scenarios.

The strongest growth potential remains as before in the 16-24, 45-64 und 65+ age cohorts. Extrapolating from scenario 1, the 65+ age cohort will see 9.9 million people using online banking in 2030, while in the 45-64 cohort it will be 14.7 million. Despite intensive exhaustion of the online potential within the cohorts, the number of users in the long term will in some cases fall because of the general population decline.

Even in the cohort of the 10 to 15-year-olds, who have so far attracted virtually no attention in terms of web-based financial services, consideration is being given from a long-term perspective to offering new, simple and above all youth-appropriate financial services (e.g. a digital allowance account), because this is the very generation that is increasingly surfing the internet via mobile end-user devices. On the given assumptions, approximately 3.6 million of the 10 to 15-year-old internet users will also be potential online banking customers in 2040.
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Online banking pie has not been sliced up and distributed yet

As regards digitisation, people are now on the cusp of a transition process. In the long term, digital structural change will result in people taking online banking for granted. The internet will be omnipresent. As a consequence, the question in future will no longer be whether people use the internet, but rather whether they tend to be active or passive users and which medium they prefer to use for access.

However, those providers who succeed at an early stage in offering robust, user-friendly and, above all, secure web-based financial services particularly in the mobile end-device market stand to experience lucrative growth spurts indeed.

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