

Millennial Banking Trends and Challenges

A young man and woman are standing against a light-colored, textured wall. The woman, in the foreground, is wearing a black leather motorcycle jacket over a white and black striped crop top and a black and white checkered skirt. She is also wearing a black fedora and large black sunglasses. The man, standing behind her, is wearing a black leather motorcycle jacket over a white t-shirt and black pants. He has a beard and is wearing aviator sunglasses. The overall aesthetic is modern and edgy.

**The economic power
of millennials**

**1 in 4 millennials hate
credit cards**

**Trends banks must
embrace to win over
millennials**

**The Millennial Saver
stocks money away**

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Why are Millennials important?

In 2014/2015, Millennials (the group aged 18 to 34) overtook Baby Boomers to become the #1 source of global income, spending and wealth creation. There is no denying that the economic power of this generation of digital natives is greater than in any previous era.

Globally their spending power alone is estimated to be US\$10 trillion. Plus, their personal wealth will grow by an estimated US\$59 trillion over the next several years due to intergenerational wealth transfer from their Baby Boomer parents. (based on a 2% growth scenario by a Wealth Transfer Microsimulation Model)

They are also highly mobile, technically savvy and open to new ways to conduct their banking. Millennials' affinity for technology will propel the banking industry onto a new trajectory. Banking institutions are therefore in for a mixed future; one that is rife with both opportunities and challenges.

Delving Into their Banking lives

While #YOLO so often represents Millennials' social mindset, it is certainly not the case when it comes to their banking lives.

Having grown up in the shadow of the 2008 recession, this generation believes in taking a pragmatic approach to securing their financial future.



It makes sense for bankers to abandon all stereotypes and delve deeper into the financial behavior as they seek to better engage and invest with the enigmatic Generation Y.

Saving Objectives

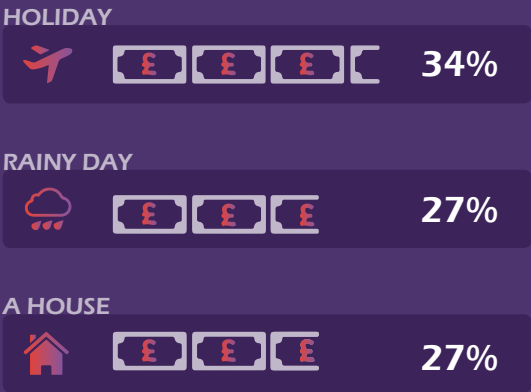


According to YouGov research, the burden of debt weighs so heavily on millennials that a whopping 86% view the idea of debt to be stressful. In addition, another 70% also say that they manage their finances well.

Although many Millennials may just be starting to save, the “saver’s mindset” is already firmly ingrained; the core needs to spend, save,

borrow and invest remain unchanged. Apart from paying down debt, they accumulate savings to manage multiple priorities whether for their first home, a holiday, or an emergency fund for a rainy day etc.

Why is the Millennial Saver stocking money away?



Their relationship with credit is apparently complex. One in four millennials describe credit cards as something that worsens their financial standing and more than half say they prefer to pay primarily with cash vs. credit, according

to Facebook. Yet at the same time, they also view credit cards as a strategic tool, with 46% saying the primary reason they use them is to build credit, and 36% also agreeing they also improve their financial flexibility.



Channel Interaction

The real difference between a Millennial and a Boomer lies in the channels and technologies these demographics prefer in interacting with their banking providers.

It should hardly come as a surprise that Millennials love their tablets and smartphones. And it is also important not to underestimate

the extent to which their choice of channels can transform the marketing and distribution landscape in banking.

In fact, mobile applications and services are steadily overtaking the World Wide Web as the key digital channel.



The mobile device became the primary technology used by consumers to access financial services in several developing and developed nations in 2014/15, with more than 50 per cent of interactions with banks conducted through mobile devices .

Interacting with their mobile phone continuously as part of their daily life, Millennials are 2–3 times more likely than the general population to be banking on mobile whether it is for tracking their money and spending, making payments/ deposits or locating ATMs/ bank branches.



Because mobile has made banking better



61%

Tracking money
and spending



19%

Making Deposit/
Payments



11%

Finding ATMs/
branches



9%

Doing
Research

Crowdsourcing Financial Guidance on Social Media

While it was once considered taboo to talk about money matters in public, Millennials have made social media their theatre for financial conversations, putting their trust in the prudence of family and friends online. According to Facebook, this generation is 1.5 times more likely than older generations to discuss their money matters online.

In the year 2015
Millennials drove

40%

of the financial
conversation on Facebook

76%

of which occurred on
mobile devices alone

With the growing popularity of visual communication, the impact of photos, videos, GIFs etc. is also being felt on millennial conversations.



Popular finance-related hashtags on Instagram



#newcar

#budget #debtfree
#taxes #retirement



#newhouse

#saving money
#debt #homeowners
#banking



#invest

#creditcards #mortgage
#finances #getoutofdebt



Use of Alternative Providers

Research by FICO reveals that this demographic is over 10X more likely to switch to peer-to-peer lenders compared to those in the 50+ age group. In addition, over 50% of Millennials are either already using or considering non-traditional payment providers like Paypal or Venmo

Currently, most Millennials are more concerned with having their banking needs fulfilled by their primary banks rather than looking at alternative payment providers due to familiarity and trust. But the trend is clear: the non-traditional banking revolution has already begun and alternative payment options are poised for rapid growth.

Young and entrepreneurial

Already Using or very Likely to Use Peer-to-Peer Lending in the Next 12 months



23%

Age 18-24



2%

Age 50+

Question: How likely are you to consider the following types of companies for banking related needs in the next 12 months?

Base: 18-24 (n=76), 25-34 (n=143), 50+ (n=503)

Young and connected

Already Using or very Likely to Use non-traditional payment companies in the Next 12 months



52%

Age 18-24



27%

Age 50+

Question: How likely are you to consider the following types of companies for banking related needs in the next 12 months?

Base: 18-24 (n=76), 25-34 (n=143), 50+ (n=503)

From Transactional to Trusted Value Relationships

This generation, more than any other seeks partnerships that deliver genuine value and they're open to whoever provides it. According to Facebook, three out of five Millennials expect their bank (or credit union) to be a partner; they want to feel better understood.

They have been conditioned to expect transactional competence and operational efficiency as givens. In order to differentiate themselves, banks therefore also need to personalize their offerings, engage at an emotional level and work seamlessly across all platforms.

These are not easy expectations to meet and, unfortunately, many Millennials indeed feel they are not being met-Facebook's research reveals that currently, only a minority of Millennials (32%) think they have satisfying interactions with their banks (as opposed to 41% of Gen Xers and Boomers).

Millennials would entrust their money to a genuine partner that understands them, looks out for them and helps them make better financial decisions as they unlock their greatest earning potential and accumulate savings.



Making the shift

Refining the customer experience of the Millennial generation is the main driver for the banking industry's transformation.

In order to digitally transform, banks will need to create new networked ecosystems for the provision of frictionless transaction, risk management, and financial services.

However, in most cases they remain tethered to pre-internet era legacy systems that are designed for 9 to 5 branch banking and simply patched up over time to meet changing technology and customer needs. These ageing, siloed systems remain the biggest obstacle to change; they stifle the bank's ability to innovate.

Additionally, the key risk for incumbents is that there's no dearth of players from adjacent industries willing to take full advantage of the innovation gap – and win over customers from doing so.



A person is lying on their back on a wooden pier or dock. They are wearing light blue jeans, red and black sneakers, and a white shirt. A blue and red plaid shirt is draped over their legs. A tablet computer is lying on the wooden planks next to them. The background is a body of water with ripples.

**In order to
digitally
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to create new
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of frictionless
transaction, risk
management,
and financial
services**

Gamification

Millennials are an experiential omnivore and constantly seek a better experience.

The concept of gamification involves bringing the elements, design and principles of a game into non-game environments to digitally engage, educate and connect with customers. It can be a remarkable tool for banks to acquire and retain customers.

For instance, by gamifying the customer-facing tools banks can enhance customers' understanding of their own financial health. This also serves the purpose of allowing them to monitor progress towards their personalized savings targets.



Gamification tools can work for banks to play on customer acquisition & attention strategies

An interesting example here is that of Netherlands-headquartered Rabobank. Through their Rabobank Mortgage File, they made their not-so-fun mortgage application process fun and interactive. The bank decided to divide all the steps a customer has to go through into a number of sub-topics, such as 'income', 'mortgage type', 'interest' etc. As soon as the client completes each segment, represented by its own icon, a 'tick' appears beside it and the next icon gets activated.

With the help of its ICICI Bank Games platform, ICICI too provides an array of games aimed at enhancing financial literacy in areas like money management, savings etc.



Do-it-yourself Digital Advice through AI & Advanced Analytics



Millennials prefer automated robo/ digital financial advice to traditional advice models. These new ways of interactions are perceived to offer greater independence and faster response.

According to Telestra Research 2016, almost two thirds of digital natives prefer receiving advice on such platforms.

Incumbents as well as fintechs and neobanks are now looking at incorporating artificial intelligence and advanced analytics to offer innovative digital service that interacts with customers, listens to questions and offers real-time personalized advice, taking basic customer services to scale.



Almost two thirds of digital natives prefer receiving advice on innovative self-service platforms



Innovation in the Payments space

To battle against alternative payment providers, banks need to identify gaps in existing payment platforms and understand the importance of innovations in this space.

They should leverage their rich data reserves (further enhanced by location & search data from mobile) to reach beyond payments transactions and manage the customer's entire digital wallet. They can extend their value proposition with the help of contextualized, value-added services – for instance, location intelligence, optimized loyalty awards and special offers, digital identity management,

payment advisory services, and even crypto currency integration.

Avidia Bank is already offering the latest in mobile banking innovation to its customer base. Its Cardless Cash ATM allows consumers to interact with the ATM from the privacy and security of their devices, stage a transaction without stepping up to the ATM, and then receive an eReceipt for the transaction on their mobile device.

The bank is also working on a real-time payments service and a digital wallet.

Banks should leverage their rich data reserves to reach beyond payments transactions and manage the customer's entire digital wallet.

Making Digital more Personalized

Perhaps the key to courting and retaining digital customers is personalization. The optimum trade-off between privacy and personalization is changing daily, and institutions need to continuously balance these competing imperatives to remain relevant.

Two of the technologies that can provide financial institutions personalized services are location intelligence and mobile application analytics. These can be used to predict what customers are likely to buy next and when. Banks can then strategically design and enrich the user experience with contextualized, timely and value-added offers.



For instance, customers near a shopping mall can be sent customized offers for a retail chain the bank has a tie-up with. Similarly those who love eating out frequently can be offered

credit cards with dining discounts while those who always pay their credit card bills on time can be offered upgrades with built-in features that suit the spending patterns.

Seamless customer experience in a multichannel ecosystem

In the end, what Millennials want is a customer journey that is as seamless as possible. For instance, for a customer who has recently posted about his upcoming foreign trip on social media, the bank should not only be able to help him liquidate his FD, but also offer a forex card with low transaction costs. Or a mortgage advisory app can be connected with social to offer highly relevant advice to customers.



Banking of the future will likely be seamlessly embodied within our lifestyles, increasingly consumed through mobile applications and the emerging Internet of Things.



FINAL THOUGHTS

As banks transform their business strategy to cater to this generation, they must not lose sight of the fact that while this demographic wants more automated functionality, they still expect human connection when they need it. The challenge lies in being able to balance the two. Technology needs to seek this human connection. It is down to technology to seek this human connection to be able to digitally humanize every interaction.





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