Thought Leadership Series

David Horton

Financial Services for the Millennial Customer

Rethinking global banking for the debt-heavy, group-thinking millennial generation

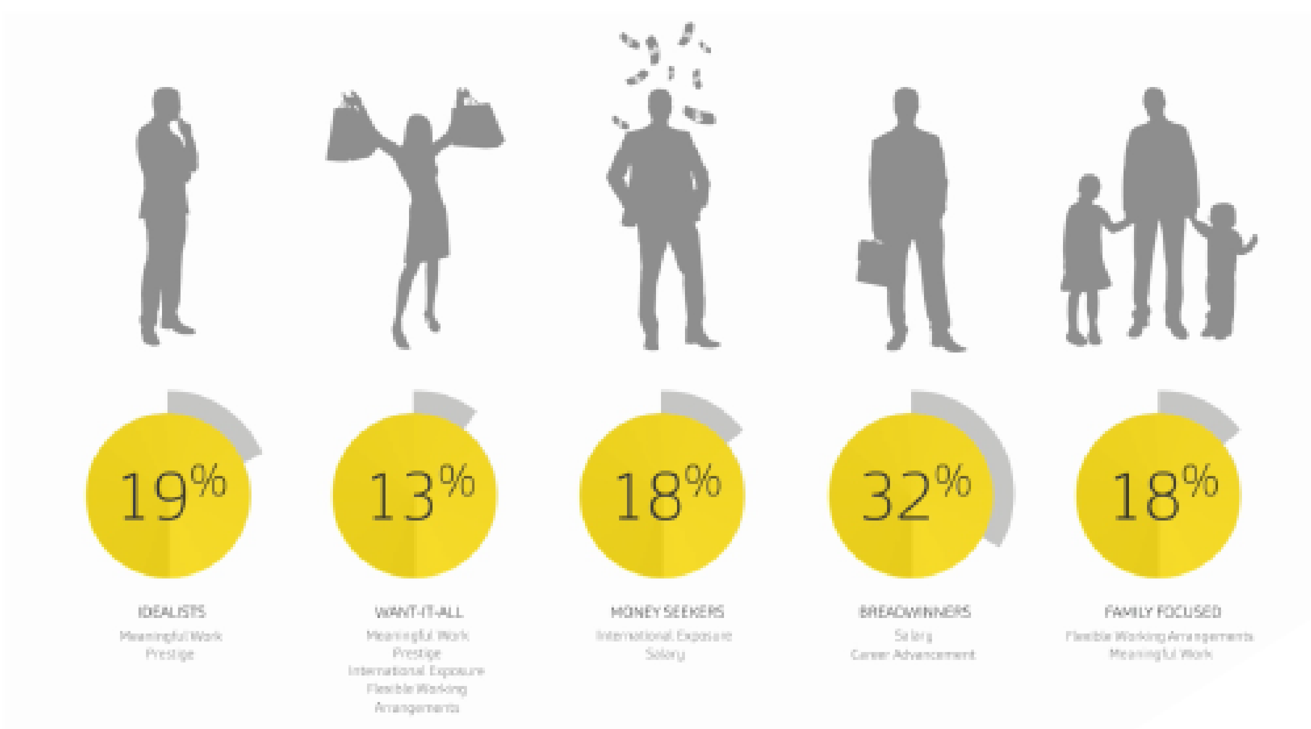
If you knew within the next four years that more than fifty percent of your most profitable customers were going to demand a different set of products and services, would you start to change your business now?

This is precisely the dilemma confronting the bulk of the world's financial institutions, who have never faced a situation in which both technology and changing customer behavior are evolving and converging at such a rapid pace. Today, the millennial generation, people aged 16 – 26, are steering spending and innovation on everything from mobile and voice commerce to politics. It is no surprise, that a large amount of the $19 billion venture capital being invested into Fintech startups is aimed at millennials. Never has it been so important for the incumbent goliaths of the financial industry to rethink their business operations and innovation strategies with the millennial customer in mind.

The Millennial's Hierarchy of Needs

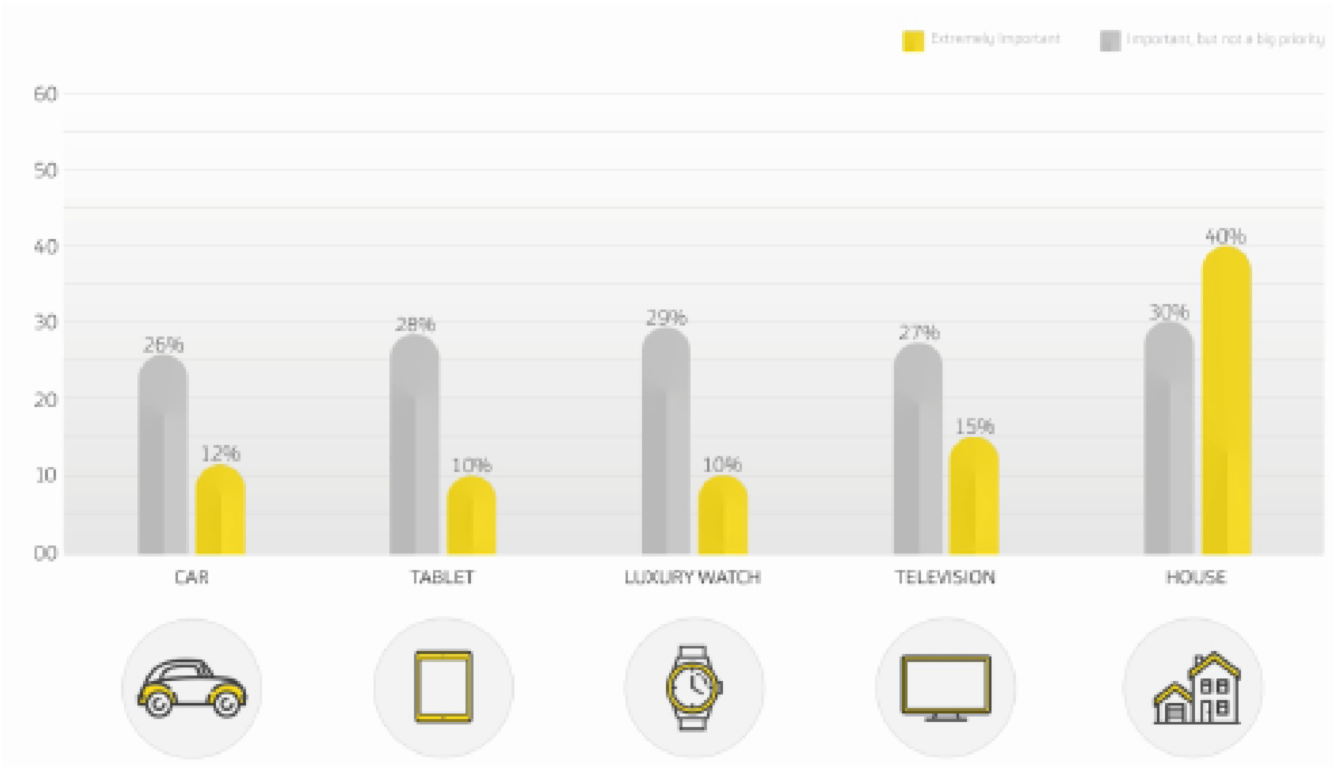
Born between 1981 and 2000, millennials have a distinct set of characteristics defining their choices. While not true of all, many millennials feel they are vital to the planet's future and to their parents' sense of purpose.

Distinct Millennial Segments



They perceive that they exist to solve world problems that previous generations have failed to solve, and whilst they may claim they want privacy, the rise and rise of social media and the current Pokémon Go' phenomenon indicates that they trust their parents, friends and peers most and thrive among social groups over individual situations.

Millennial Hierarchy of Needs

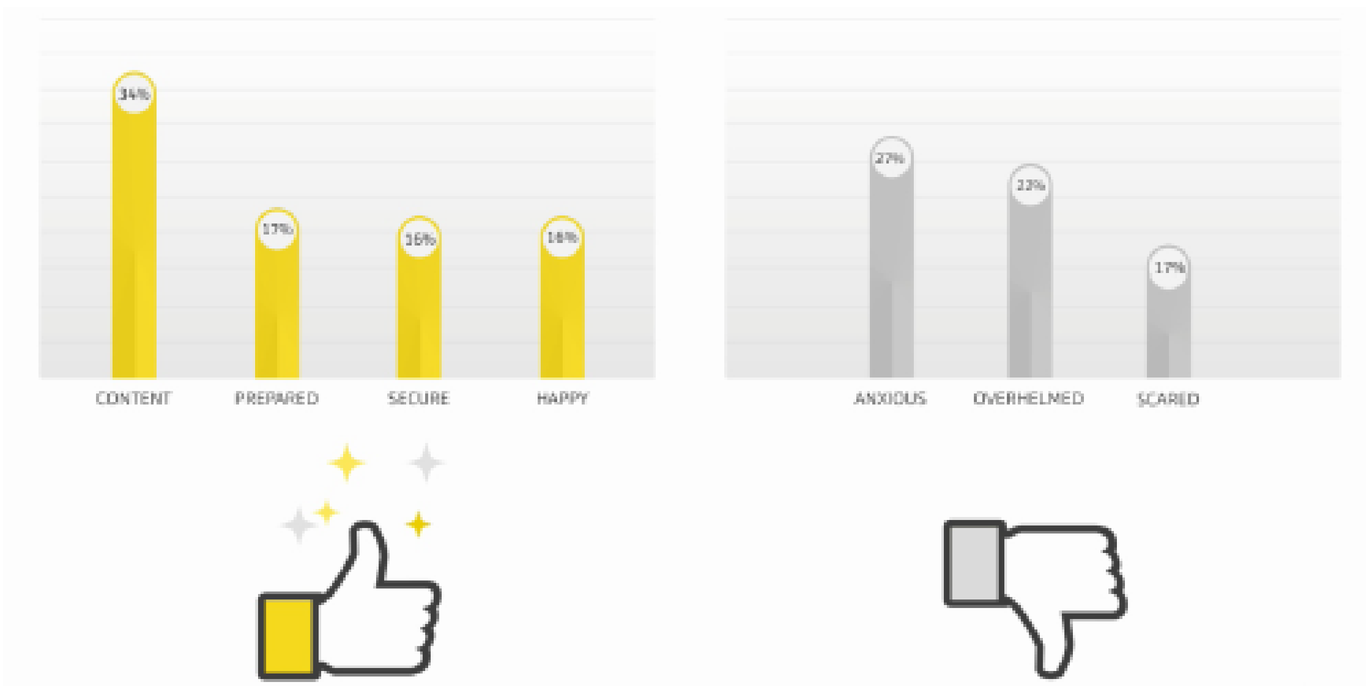


Furthermore, growing up in a period of high-touch parenting and through the financial crisis, many millennials look to their parents for financial decision-making and mistrust financial institutions, especially as they feel the burden of growing student debt, which continues to rise unabated. In fact, student debt is estimated to reach $16,746 trillion by 2020.

Student Debt Figures

which threatens to seriously impact credit worthiness of both millennials and their children. This bottom-line need for low fees and disillusionment with financial industry professionals is driving the rapid growth of peer-to-peer lending and robo-advisors like Betterment.

Millennials' Money Management Sentiment



So now we know what Millennials are about, what do FI's need to change?

Given these changes, financial institutions would do well to reassess 'digital' across their global business lines. As the mobile phone now represents the most personal item in the daily lives of millennials, it seems only practical that banks look to build their primary engagement channel with mobile apps. But not only will they need to re-think the channel of engagement, they'll also need to rethink their products, services and message to millennials to re-build trust and demonstrate the value they can add given the very different wants and needs of today's millennial.

Exorbitant student debt could require new principles for credit scoring taking into consideration non-traditional data sources like social media to rethink risk modeling as unbanked and underbanked millennials may lack an adequate credit history. Companies like Mambu are working with lending companies like LendIT to provide a cloud banking platform that allows R&D spend to be diverted from expensive core banking systems to development of new credit decisioning models.

Life insurance companies and mortgage providers can already begin to assume different 'rules' over the next 30 years around retirement planning and personal policies and home loans, where debt-heavy millennials paying of student loans over the course of a decade may be more reluctant (or merely unable) to take on new debt verses past generations – but where 40% saying it is extremely important for them to own a home, according to the Goldman Sachs Fortnightly Intern Survey. This might mean new, products or services around loan applications and financing that rethink payment schedules or incentives for existing student loan customers with the millennial mindset in mind.

Financial institutions should also think about services that tap into the socially influenced, group-think propensity and enhance their social media and gamification strategies. This might include things like encouraging social media tweet-ups instead of traditional banking workshops to bring together groups of millennial peers on topics like 'How I paid off my student loans 1 year after graduation.' While banks often use these channels to build up brand, and there is a lack of trust that it may seem like this channel can help to re-build, millennials sense authenticity and are not interested in fruitless, B to C engagement. They want C to C conversations. Using this channel to promote social dialogue between millennials, and their trusted peers is a better strategy.

A good example in which C to C or P2P social networks is changing the financial industry is in 'crowd vesting' where investment portfolios can be discussed and sometimes copied under a social trading platform like eToro. Instead of listening to financial advisors, millennials can collaborate themselves without the need to pay for advisory fees.

Mobile apps themselves need to graduate to more than just touch and swipe functionality and must begin to leverage voice (such as Amazon's Echo), biometrics and the inherent hardware capabilities like the camera, geolocation, NFC and bluetooth low emission to create trust-centered relationships. For example, geolocation data could feed KYC systems to better map the travel profile of customers and group them into like segments or merely to minimize inconvenient card-freezes when traveling.

FI's can greatly enhance and optimize the onboarding process by allowing their mobile apps to enroll biometric data during customer acquisition and also to use the camera to take photos and upload documents like Passports or driving licenses need for KYC. Add the element of chatbots or NLP like Amazon Echo and the process, whilst automated, becomes increasingly more 'human'.

Financial Institutions know millennials require a completely different approach. The reality is that many would bank with Apple, Google or their telecoms provider if it was easy, and they offered those services.

MILLENNIAL STATS

39% Current workforce

50% Growth by 2020

Million in UK by 2020

23% Bachelors degree or higher

21% married

Top 4 Leading banks are among the 10 least-loved brands by millennials

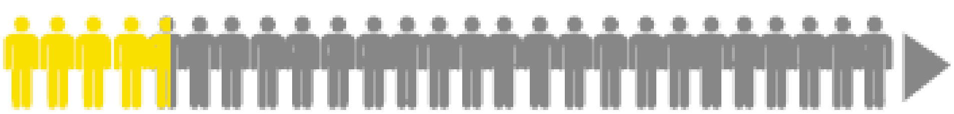
71% Would visit dentist rather go to bank

33% Switch banks in next 90 days

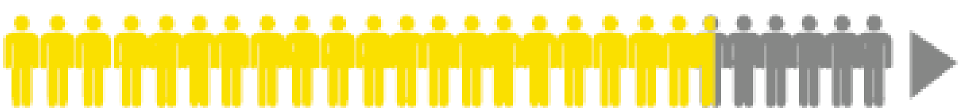
73% Interested in financial offerings from Google and Amazon

52% Seek financial advice from parents first

24% Seek financial advice from banks first



19% Trust most people



89% Likely to buy from a company with a social or environmental mission

Financial Institutions need to think about creating digital experiences for millennials that understand and accept the position millennials want them to play in their lives. They need to make it easier to manage student loan payments, appeal to the group nature embedded into the millennial ethos and re-position their value from a relationship business to a product business – and deliver them digitally.