# Generation Y should we put up with traditional banking?

**Millennials are poised to disrupt banking. Discover how the industry can leverage customer experiences to keep up.**

# Millennial-centric banking

Generation Y, more commonly referred to as "Millennials", are coming into their prime spending years. Being a generation that makes up 23% of the world's population, and is larger in size than any other adult cohort, makes it difficult to consider Millennials as a generalised customer segment. Yet, recent economic and societal events make this generation a key discussion topic within financial services.

Whether born in 1980 or 1999, each segment of this generation has experienced defining events that allow us to identify common themes and trends around their attitude towards finances and their perception of banks. In contrast to generations that have come before, they're managing large student debts and navigating a truly uncertain time. As a result, Millennials are less able and less willing to save for long-term commitments, which means their relationships with banks are more surface level than previous generations.

**So, how can banks redefine customer experiences to establish richer, long-term relationships with Millennials?**

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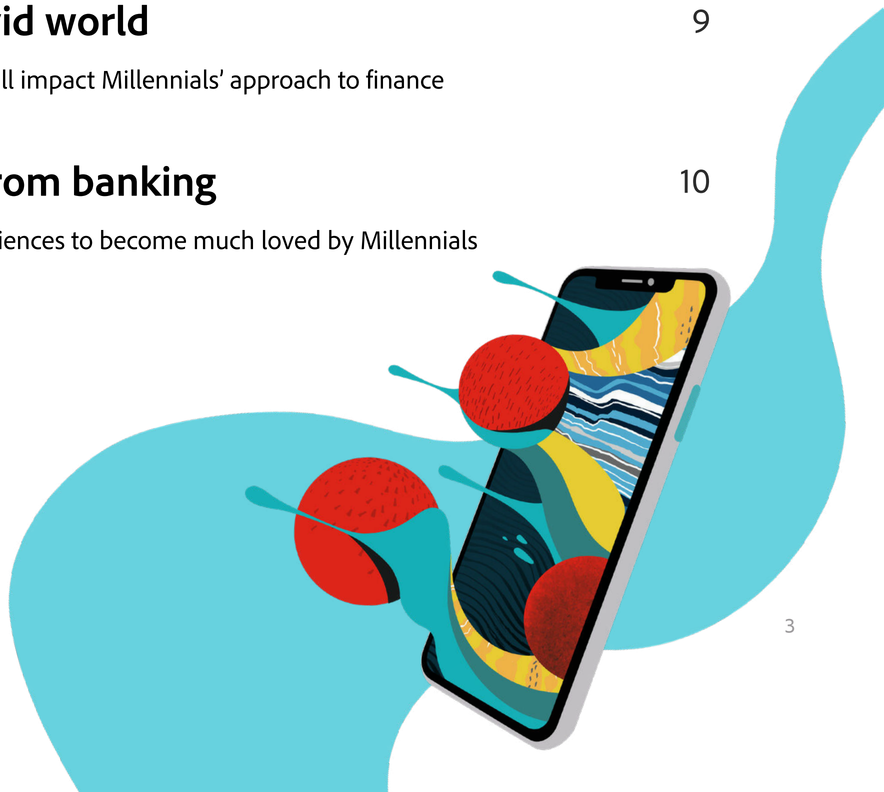


# Different world, different worldview

Millennials are on the cusp of their prime spending years, so banks know that the future generation of growth depends on Millennials. In order to win over Gen Y, banks must first truly understand this demographic – what they have lived through, their worldview and their expectations – and why their approach to finance differs so vastly from previous generations.

The generation born between

**1980 → 2000**

## The Millennial experience

Rising university fees. The Great Recession. A global pandemic. This generation has grown up in a time of rapid change. It's these societal events that have shaped Millennials' worldview and attitude towards money.

First Gen Y born ⟷ Last Gen Y born

**1980** **1990** **2000** **2010** **2020**

**1992**
UK Polytechnics become degree awarding universities.
Gen Y aged > 12.

Not directly impacted but it changes the employment market.

**1998**
Tuition fees introduced in the UK.
Gen Y aged 2 – 18.

Carry more debt into adult life, and have no precedent for how to deal with it.

**2008**
The great recession. Gen Y aged 12 – 28

More suspicious of traditional investing and the stability of established financial institutions.

**2020**
Covid-19 and the impact on finances. Gen Y aged 25 – 40

Grew up with technology and the speed of digital transactions.
A generation who 'want it now'.

# The true cost of university

The 1998 introduction of university fees meant Millennials were the first generation to take home more than just their degree. On average, a student in England in 2020 takes home £40,000[1] worth of debt – an even larger cost when that degree is now seen as commonplace due to higher participation rates in higher education.

As a result of polytechnics becoming degree-awarding universities in 1992, participation rates have shot up from 3.4% in 1950, to 8.4% in 1970, 19.3% in 1990 and 33% in 2000[2], watering down the competitive advantage of having a degree.

Higher university attendance has changed the labour market; the proportion of the UK workforce with a graduate level qualification has almost doubled in the last 18 years, increasing from 25% in 2002 to 40% in 2020.[3]

**£40,000**

is the average cost of a student loan in England in 2020[1]

**33%**

participation in higher education in 2000, compared to **19.3%** in 1990[2]

**40%**

of UK workforce had achieved higher education qualification in 2020[3]

For graduates, the potential benefit of their increasingly large capital investment offset against stronger future earnings is being eroded. This means the debt from gaining a degree level qualification takes longer to repay, so Millennials are living with and managing debt for longer. As a result, Gen Y's financial priorities revolve around managing and paying off debt, rather than saving for the future. 34% of Millennials admit that they are 'very concerned' about paying off debts, compared to just 25% of Gen X, indicating a generational behaviour shift.[4]

## At a glance

- Millennials were the first generation to have to deal with graduating with extensive debt
- Changes in higher education meant that the return on that investment is decreasing
- Degree level education is becoming an expensive prerequisite, rather than a differentiator

[1] Source: Statista
[2] Source: House of Commons Library
[3] Source: Office for National Statistics
[4] Source: Meeting of Minds bespoke research March 2019 (N=1,856)

# The ownership challenge

As a direct result of managing debt, rather than having the capital to save and invest, Millennials' financial mindset is much more short-term; they focus on the here and now, as they are unable to save for the long-term. Compared with previous generations, who are financially able to get their satisfaction from ownership, Millennials are buying houses, getting married and having children later, delaying the financial planning that comes with making long-term commitments.[5]

An additional point to note is that, as life expectancy continues to increase, parents of Millennials are living longer than ever[6], meaning that more money will be spent in retirement, reducing the potential inheritance pot for Millennials. Inheritance will also come far too late to give Millennials the financial capital to invest in these major milestones.

## Less able or less willing to invest?

Millennials are less likely to be in a financial position to enter into long-term financial relationships with banks, but are they also less willing? Memories of the collapse of what were thought to be solid and established financial institutions in 2008 may have stayed with this generation, influencing their trust in long-term investments. Our Consumer Confidence Index survey reveals that it took 5-6 years, until 2014, for consumer confidence in banks to recover after the recession[7] – a period Millennials witnessed and felt the repercussions of.

## Millennials favour short-term investments

Barbara Knoblach, Money Coaches Canada, says "I'd categorise the Millennial cohort as growth investors, and Generation X and Baby Boomers as balanced investors. Millennials are more likely to be short-term in their approach, less inclined to buy and hold for the long-term (32%), as compared to Generation Xers (40%) and Baby Boomers (43%)."[8] This lack of engagement with long-term projections manifests itself in the way that Millennials interact with the world.

From 2000-2018, 16-24 year olds were recorded as being the most likely to change jobs.[9] Additionally, research indicates that, after Gen Z, Millennials are the least likely generation to commit to just one bank, but rather juggle multiple at once, joining new banks in favour of specific features or experiences. For example, 35% of Millennials said that they would join a new bank if it offered the feature to freeze and unfreeze your bank card, compared to just 29% of Gen X and only 23% of Baby Boomers.[10]

## At a glance

- Millennials are financially less able to plan for their long-term future
- They're postponing major milestones in their lives that bring long term stability and commitment
- Experiences are more important as Millennials are less likely to be in a position to get satisfaction from ownership

[5] Source: Office for National Statistics
[6] Source: Macrotrends
[7] Source: Savanta Consumer Confident Index (CCI)
[8] Source: Q4blog
[9] Source: Office for National Statistics
[10] Source: Crealogix

# An appetite for digital

## Millennials are the first generation of true digital natives

The majority of Millenials don't know a world without the internet, so living life in a digital environment is a natural behaviour for Gen Y, as opposed to Gen X for whom the internet was a learned behaviour. This ease of navigating the digital world has manifested itself in the way that Millennials choose to interact with banks. 64% say that, for their day-to-day banking, they prefer app-based banking over web or in-branch, compared to only 42% of Gen X and only 19% of Baby Boomers. Almost none of Gen Z (2%) or Millennials (8%) chose in-branch banking as their preferred method, suggesting that **a preference for in-person banking is a dying dynamic.**[11]

This appetite for digital banking is only growing amongst Gen Z and Millennials, both of whom are early adopters of new services that solve old problems. For example, the use of Digital Wallets is increasing amongst younger generations: 48% of Gen Z and 35% of Millennials use Digital Wallets, compared to just 25% of Gen X and 12% of Baby Boomers.[12]

When forecasting future adoption of digital-only banks amongst Millennials in the UK, studies show a significant increase of 12.7% year-on-year from 2020 to 2024. For the US, this accelerates to 19.8% growth.

## But is having *just* a digital presence enough?

Millennials understand the digital world; they know a digital presence isn't necessarily an accurate reflection of reality. And so, compared to the established banking institutions, there is not the same depth of trust in digital-only banks.

Millennials like the functionality, innovation and user experience provided by digital banks; they are happy to interact with them for their day-to-day banking, but they ultimately like the security of the Big Four banking brands. When offered a choice of companies to bank with, 20% of Millennials opted for one of the Big Four, while only 6% chose a digital bank.[13]

For longer term commitments, Millennials want an established brand that has developed an online offering that is comparable in user experience to the digital banks, providing **the best of both worlds.**

### At a glance

- A compelling digital experience is not a substitute for trust and reputation
- It's hard to develop deep relationships with a digital-only brand as it lacks roots in the real world
- Where more risk is involved, and a longer commitment is required, a real world presence and an established brand provides confidence

[11] Source: Savanta, Meeting of Minds bespoke research March 2019 (N=1,856)
[12] Source: Savanta BrandVue September L6M (N=7576/N=7418)
[13] Source: Ycharts

Deeper roots and an established brand is important to Gen Y

# Millennials' relationship with banks

Despite limited experience with longer term banking products, Millennials have little interest in seeking professional banking advice. 53.3% of Millennials, regardless of their satisfaction with savings, have no interest in ever using a financial advisor.[14]

Older generations, on the other hand, are less likely to be managing unsecured debt and so more likely to be saving, investing or locked into long-term secured debt, like a mortgage. This requires them to enter into a long-term commitment which, to a certain extent, establishes a much more deeply rooted connection with their financial provider.

**53.3%**

of Millennials have no interest in using a financial advisor.[14]

**Older**

generations have a much more deeply rooted connection with banks.

In contrast to their parents, Millennials have shallow interactions with digital banks; they are happy to gravitate to these neo-banks for the user experience and risk-free fun, but when it comes to more serious financial decisions, they look to family members or their partner, rather than experts. **60%** of **Millennials** said they would turn to their partner for financial advice, **66%** of **Gen Z** trust their parents, whereas **48%** of **Gen X** prefer an expert review and **49%** of **Baby Boomers** trust an adviser at a bank.[15]

As the first generation of digital natives, Millennials have had instant access to information at their fingertips and are empowered to seek financial education through online search engines and collaborating in digital forums. Supporting this generation in meeting their financial needs, will become a key differentiator for banks. Going beyond the creation of digital experiences, to develop deeper customer relationships that provides ongoing support of their customer's financial health.

## At a glance

- Millennials are less likely to have an established, deep rooted relationship with their bank
- Millennials are more likely to turn to previous generations for financial advice over professional advisors
- The ability to offer digital experiences and build trust are equally important for Millennials

[14] Source: Savanta, Meeting of Minds bespoke research March 2019 (N=1,856)
[15] Source: Savanta, Covid Consumer Tracker (Wave 10 July 2020)

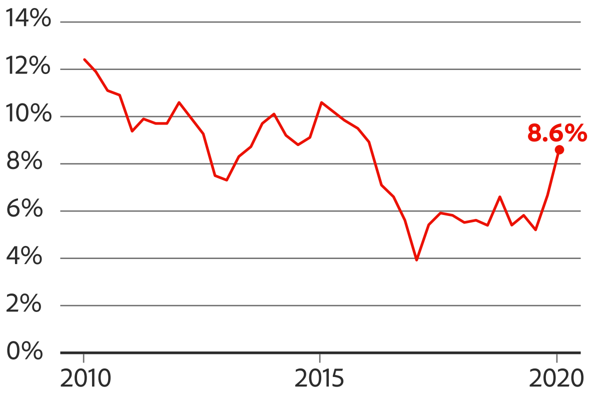
# Preparing for a post-COVID world

The pandemic has impacted financial behaviour across generations. Millennials and Gen Z have been forced to look critically at their financial situation and re-evaluate their spending habits. 76% of Millennials stated that, as a result of the pandemic and the uncertainty it has caused, having some savings has become important for their peace of mind and 72% have spent more time looking at their financial situation in contrast to just 58% of Gen X and 47% of Baby Boomers.[16]

## The pandemic has forced Millennials to become savers, not spenders

As well as thinking more critically about their finances, Millennials have also had more disposable income. As the graph below demonstrates, those with disposable income haved saved 8.6% of it due to the fact that there are less opportunities to go out and spend.[17] This raises the question: **Will Millennials use that extra money to pay down debt or is it to be kept as accessible savings for unforeseen circumstances?**

Percentage of households' disposable income saved

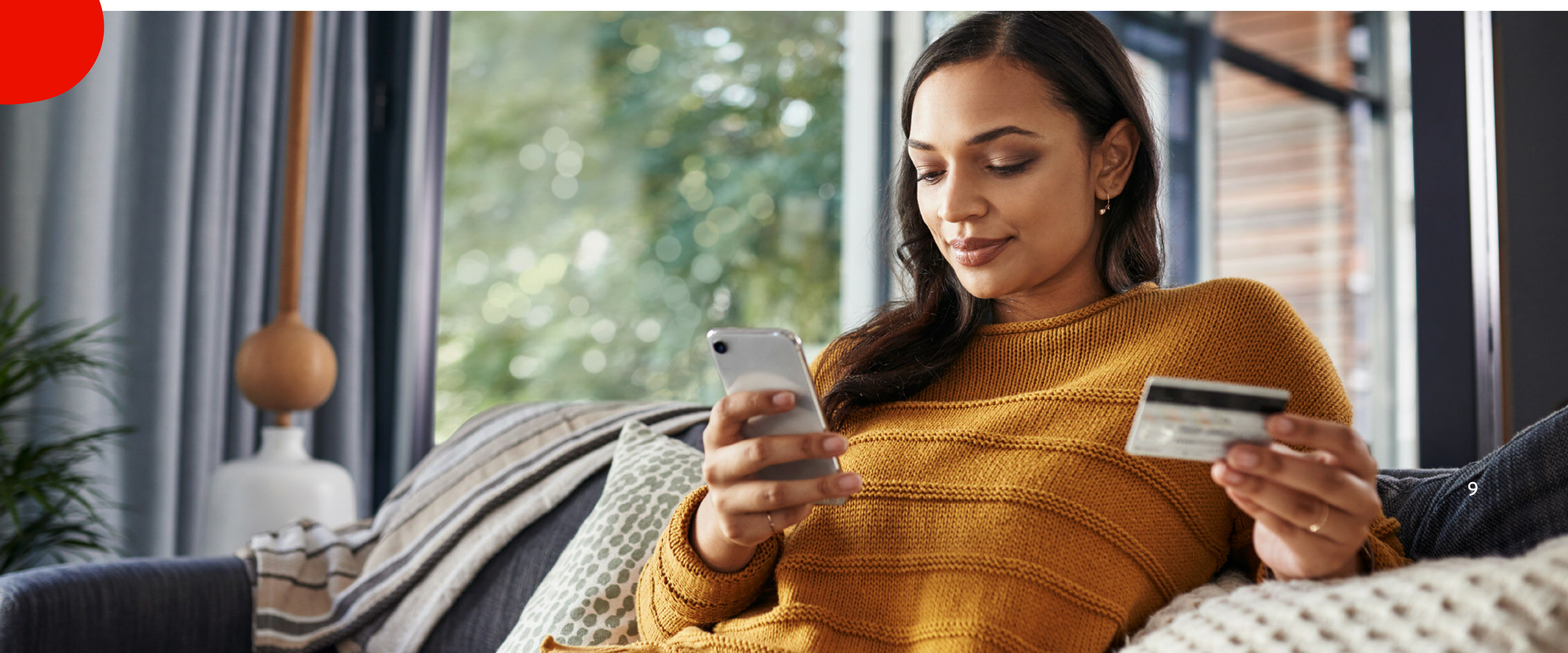



Source: Office for National Statistics

### At a glance

- Financial behaviours are switching from instant gratification spending to saving as a result of COVID-19
- As the UK heads towards a recession, building and maintaining trust with Millennials will be crucial, if we are to take learnings from 2008 recession
- It is uncertain what the new normal will look like, but habits and relationships built now might stick in the future

[16] Source: Savanta, Covid Consumer Tracker (Wave 10 July 2020)
[17] Source: Office of National Statistics



# What Millennials want from banking

Millennials are poised to redefine banking. As a direct result of managing large unsecured debt, as well as changes to higher education, there has been a generational shift in the way that young people interact with their bank. No longer are they willing, or able, to invest in long-term commitments; Millennials are postponing major milestones and, instead, are getting their satisfaction from investing in experiences and the here and now.

This shift poses a challenge to banks: How can they establish long-term relationships with a generation not willing to commit?

To appeal to Millenials, providing seamless, digital experiences is crucial; they are a generation that seems to jump between banks in favour of innovative app functions and digital offerings. However, establishing trust and building long-term relationships with Millennials will take more than just innovative user experiences.

As evidenced through the way that they interact with banks, Millennials leverage challenger and digital-only banks for their day-to-day banking, but the trust ends there. When it comes to eventually investing in any long-term products, like a mortgage, Millennials want the credentials of a Big Four bank.

## So, how can banks become much loved by Millennials?

To establish trust, as well as drive innovation, customer insights are key. Investing in a unified data platform will provide banks with the visibility they need to truly understand Millennials. From a customer perspective, a single data dashboard will reduce data silos and allow banks to quickly see where to engage with their customer to ensure product recommendations, emails and online experiences are relevant, personalised and never repeated.

By investing in the right technology these seamless experiences can be achieved at scale, in real-time, across all digital touchpoints. So, whether they're receiving an email, transferring funds through an app or seeking support online, Millennials will feel supported at every point, fostering trust in a way that elevates how Millennials feel about and connect with their bank.

## Millennial in-the-moment banking

Understanding and gaining greater visibility over the entire customer journey will allow banks to push Millennials to relevant products and the content they need to make informed decisions, in the moment. After all, speed and relevance is everything among the digital generation that lives in the here and now.