Millennials and the Traditional Banking Industry:

How UX Strategy Holds the Key

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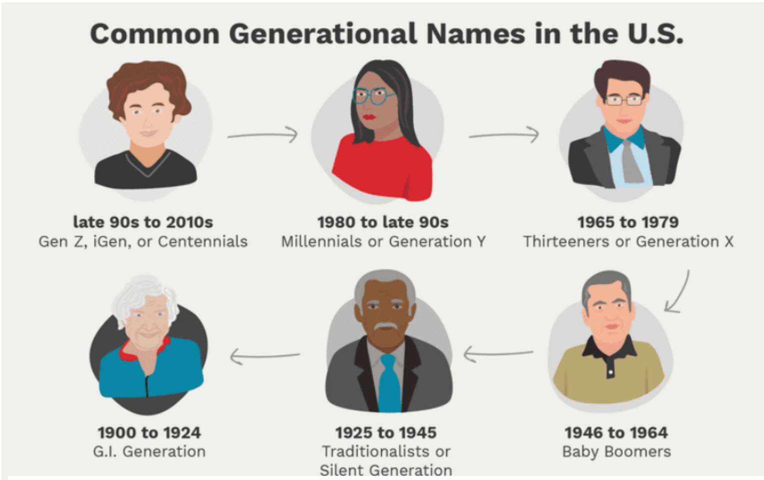
Overview

Industries around the world are changing due to new pressure from younger generations. Today, the millennial generation is influencing messaging, marketing, and business practices and banks are poised strategically to take advantage of the opportunities the millennial generation will offer. At The Good Life Consulting, we have aggregated insights, predictions, and recommendations of how to succeed with millennial consumers in the Financial Services industry.

The report covers:

1. Research about millennial trends, behaviors, and expectations
2. An encompassing overview of banks' position in the millennial market
3. Best practices being implemented in the banking and retail industries to secure millennial consumers
4. Future trends banks ought to consider to remain competitive to millennials



A list of generational names for reference[14]

Introduction

A new age of consumers, employees, and decision makers is on the cusp of creating monumental changes for most industries. The budding generation of millennials is breaking into the workforce heavily influencing the world around them. About one third of the American workforce is aged between 18-24 and their numbers will only increase as more and more millennials graduate and replace baby boomers as the dominant generation in the American workforce. The transition from education to employment leads millennials to a newfound financial freedom. For the first time in many of their lives millennials now enjoy a sense of disposable income and self-reliance, that is both liberating and stressful. Away from parents and the pressure of school, millennials' decisions now lie entirely in their hands. This freedom leaves many millennials at the helm of their financial decisions for the first time in their lives.

The surge of this younger generation into the workforce creates new opportunities for many industries. Soon, as millennials continue to work and build wealth, they will become one of the largest consumer populations the world has seen. As adolescents, millennials shook consumer markets and have changed the way retailers market and relate to younger generations. Millennials gravitate toward meaningful experiences over large purchases. Progressive retail brands have taken note of their tendencies and have adjusted their in-store experiences to attract millennial consumers. Perhaps one of the most famous examples is Lululemon. In 2000, the founder of Lululemon, Chip Wilson, converted his daytime design studio and nighttime yoga studio into a unique store that brought both worlds together. Lululemon now offers free, weekly yoga classes in their stores. Lululemon strategically implemented these classes to increase store traffic and develop a positive customer branding image. Lululemon not only created a meaningful experience for their customers, they also created a community of fitness and fashion.

Millennials grew up with increased access to information and consequently will be the best educated and most informed consumers. Industries such as apparel, technology, and the sharing economy have all recognized the influence of this budding generation. However, industries tightly bound to older, established generations have not been so quick to adapt. Specifically, the banking industry has many challenges and great opportunities adapting to millennials.

There is window of opportunity for banks to capitalize on the millennial generation's introduction to financial freedom. However, most banks are still focused on upholding their established customer base. Millennial focus on efficient digital interactions, personalized experience, and social responsibility will all become major factors for banks to consider as they navigate how to appeal to the younger generation. There is great opportunity for banks to increase their appeal and attract the millennial population to their services.

Millennial Trend, Behaviors, and Expectations

The millennial generation will continue to change the consumer landscape. Their impact on the retail industry is evident, and their impression on the banking industry is forthcoming. Millennials are generally known as the generation following Generation X and were born from 1977-1995 [1]. Perhaps the most notable tendency of this generation is their aversion toward large traditional corporations and attraction to socially responsible enterprises. Millennials tend to abandon the notion of consumption and instead have been flocking to companies that use their platforms for good. Editorial assistant at *Publishers Weekly,* and peer acclaimed millennial expert, Orem Smilansky explains that Millennials have "begun to see brands not as badges, but as mirrors that reflect their values and beliefs." As such, big brands have been changing their image, messages, and practices to appeal to the moral expectations of the younger generations. Perhaps the most poignant example of millennial marketing techniques came recently from Nike. Nike took a bold strategy and endorsed ostracized football player, Colin Kaepernick. They released ad campaigns endorsing his sacrifices and commitment to justice. Nike was met with harsh backlash from the older generations, many of them predicted Nike's move to be fatal for the company. However, Nike stock actually increased in value and sales skyrocketed thanks to millennial support.

Millennials will have an increasing effect on corporate social culture and will also greatly change the demographics of the workforce. According to the US Bureau of Labor Statistics, by 2020 millennials with make up 50% of the American workforce and 75% by 2030[2]. Millennials are also posed to change the culture within the American workforce. In contrast to their Gen X predecessors, polls indicate that "43 % of Millennials envision leaving their jobs within two years while only 28% seek to stay beyond five years[2].” Millennials are predicted to be the most mobile generation, with their first terms of employment averaging only around 2 years. Millennials are an experience seeking generation. Employers keen on retaining millennial employees must provide meaningful experiences and opportunities for movement within their companies.

The surge of millennials into the workforce creates a new market for financial institutions. The financial industry must deal with much of the challenges other industries have faced improving appeal to millennials. However, banks have a unique advantage toward millennials. A study by Forbes found that millennials struggle with their personal finances - 35% reported they are unsatisfied with their current financial situation, and over 60% expressed a burden by debt[3]. Repaying student loans has caused millennials to delay large purchases, such as buying homes, to almost a decade later than baby boomers[4]. The individualistic and sardonic attitude of many millennials translates into a cynical view on big banks and financial wellness. In one survey, only 27% of millennials have sought professional financial advice[5]. Millennials tend to seek financial advice from family, friends, and independent research, rather than choosing professional help. There is a large gap between millennials uneasy with seeking professional advice versus baby boomer’s that are more comfortable with traditional financial institutions. The gap highlights a failure: most financial institutions have not optimized resources to secure millennial clients trust. Many have a plethora of financial tools, but millennials are uninterested or unaware of these resources. Poor publicity adds to millennial uneasiness when seeking financial advice. Rebranding and new financial health education could be a big opportunity for banks seeking millennial prospects.

Bank’s Position in the Millennial Market

The banking industry has seen monumental change in the past couple decades. Some enforced and some organic, these changes have spurred technological and process improvements. Perhaps the most notable change in banking of the past decades has been the implementation of digital banking.

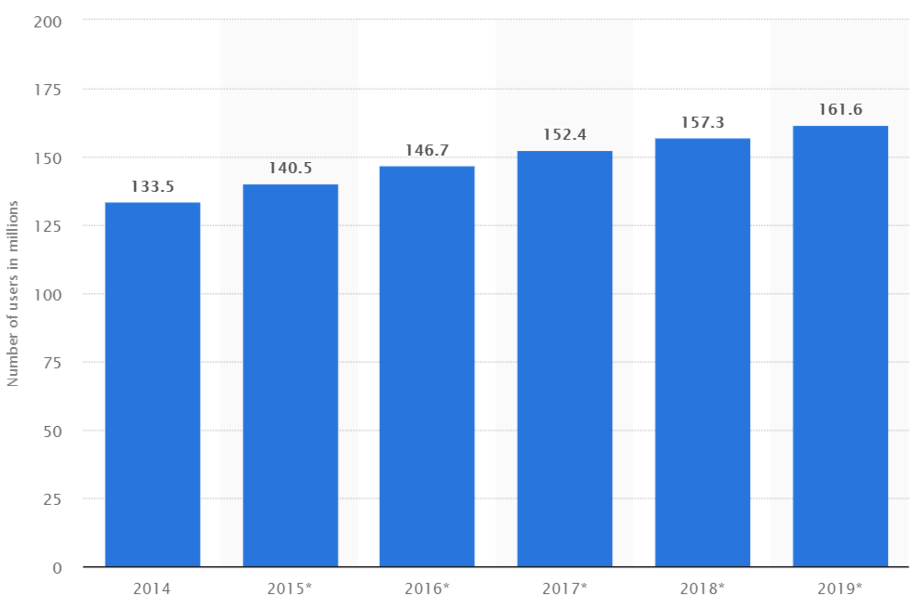


Figure 1: Growth of Digital Banking[6]

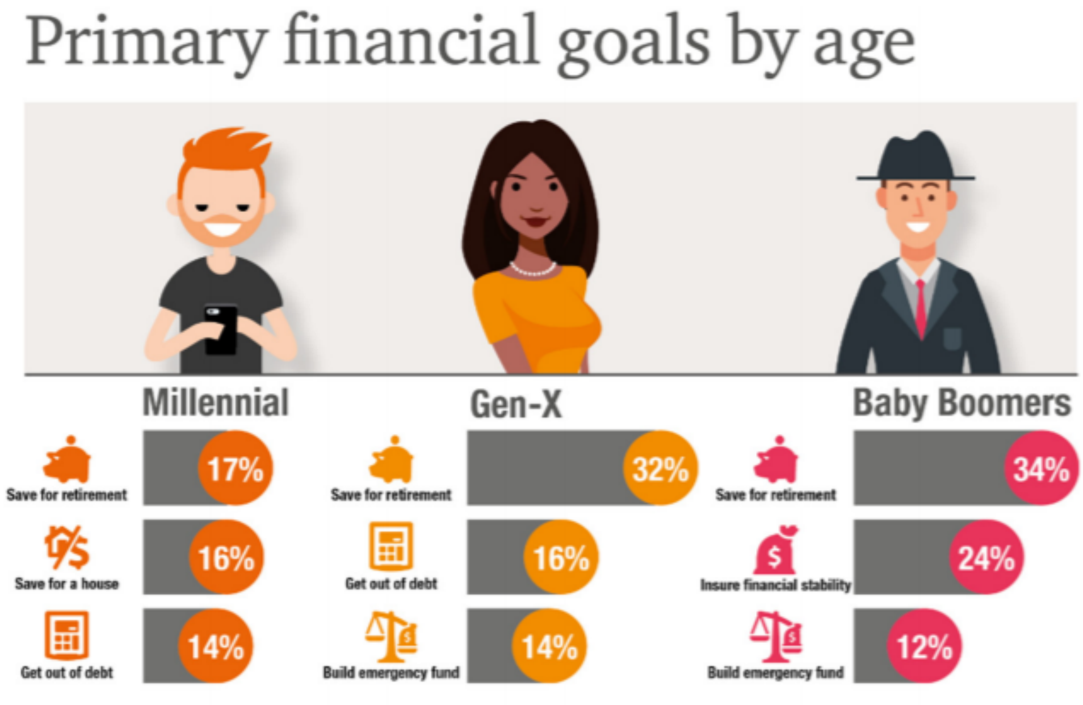
The number of digital banking users is climbing steadily (as shown in the figure above). In 2014, approximately 133 million people used some sort of digital banking services; by the end of 2019, 160 million people are estimated to be using digital banking services. This 20% increase highlights the paradigm shift to digital banking. Today, all major banks offer streamlined digital banking experiences with a variety of functionalities. Millennials looking for financial institutions to do business with in coming years will be looking for banks that focus on their digital presence. Forbes' research states, "Millennials are accessing their financial information via mobile device eight and a half times more often than other generations; a trend that is only expected to grow with time[3]." Smartphone banking use is steadily increasing and is expected to disrupt desktop computer use as the most dominant form of digital banking. A Price Waterhouse Cooper survey saw an increase of 5% in mobile dominant banking customers in just a single year[7]. Millennial smartphone dependency will likely fuel additional changes in the digital banking landscape.

Although digital banking will have major implications for its industry, banks should not neglect their branches. J.D. Power found that the unhappiest banking customers are those forced into one specific service channel. Overall satisfaction is lowest among retail banks that only offer digital or in-branch banking services. The most satisfied surveyed group are branch dependent, digital customers. These customers visited a branch location 2-3 times in the past 3 months yet completed the majority of day-to-day banking digitally[8]. Digital banking is becoming more popular, still, local branches must remain a priority for retail banks. The millennial generation ushers in a new wave of digital dependency, but still hold human interaction as a core principle in their choice of banking.

Many millennials' hesitation toward large enterprises is that they will be treated as a number, not as a person. Banks must approach the millennial's in ways which personalize every interaction. Millennials also demand that corporations recognize society in all its diversity. Diversity and inclusion training have become essential to millennials, as it helps mitigate unintentional social misunderstandings and conflicts. Large companies, such as Starbucks, have restructured training procedures and marketing strategies due to harmful interactions between employees and customers. Banks have an opportunity to recognize the attributes their customer may find important. Many major banks have joined and supported the LGBTQ community by raising banners, launching new websites, and supporting LGBTQ organizations. Addressing their Pride month support, U.S. Bank states, "We want to make sure all the services we provide are reflective of the community[15]." Social participation will separate participating businesses from unsupportive ones. Supporting the community, accepting all people, showing solidarity for good cause are all actions that help develop a better society. Millennials will recognize and support those companies that follow this model.

Best Practices to Secure Millennial Customers

In attracting and retaining millennial customers, banks must choose what, when, and how to send marketing information to prospective and established customers. According to a FICO report, 46% of established customers state that banks do not send relevant marketing material for future financial decisions[9]. Big Data means banks can access information about their customers relevant to understanding financial decisions customers may make in the near future. With all the available data, banks must take advantage of the opportunity to enhance marketing efforts by making them hyper relevant. Millennials expect personalized product offerings that meet their financial goals; which are much different than other generations (See Figure 2).



Source: PwC's 2018 Digital Banking Consumer Survey.

Figure 2: Differences in Financial Goals

Sending millennials marketing material targeting to previous generations is not only wasteful, but could also support the belief that banks are out of touch with the expectations of the millennial population.

Millennials are the first generation raised with the internet at their fingertips. They grew alongside the inception of social media and data sharing movements and have generally been more open to sharing their personal information. The power of big data is alarming and many millennials struggle to comprehend this privacy paradox. However, millennials tend to agree that if a company is transparent about how they use consumer data, they will have less hesitation giving their consent to use it. Moreover, if companies provide meaningful, personalized experiences with the data they collect, millennials won't be hesitant, instead they will be excited.

Millennials have been the first to experiment and adopt alternative banking measures. FICO reports over 52% of millennials have adopted non-traditional payment companies. Services such as Venmo (owned by Paypal) are streamlining peer to peer lending in ways that challenges traditional banking dominance. Large financial institutions are catching on to the importance of peer to peer (P2P) functionality. Zelle, sponsored by most large banks, was rolled out as competition to popular P2P apps such as Venmo. Zelle had a poor start but has been rising to prominence. Zelle is predicted to overtake Venmo as the leading P2P service in the next year with over 27 million users. However, Venmo still holds tightly to the majority of millennials. Venmo's claim to fame stemmed from its playful approach to P2P lending. Its social aspect and ease of use steals millennials away from bank sponsored apps such as Zelle. Even though Zelle embeds into bank accounts, which allows funds to be deposited within minutes, compared to days with Venmo, Venmo continues to attract attention from younger crowds. Venmo has gamified P2P lending and continues to hold strong despite encroaching efforts from Zelle. P2P services show no sign of slowing down. In 2018, P2P transactions exceeded $120 billion and is expected to continue to grow exponentially. To attract millennials, banks should implement P2P channels into their platforms[10].

Today's banks primarily attract millennial customers through basic banking services and credit cards. However, banks' other core businesses must be optimized to support the millennial population. Millennials are unlike previous generations. For instance, 75% of millennial college graduates have student loan debt and the average debt of a college graduate reached almost $29,000[5]. Due to large debts, big life events are frequentky delayed. The average age for home ownership, marriage, and having kids will rise compared to earlier generations. Banks may have to reevaluate their core businesses when relating to millennials. Millennial job instability and overhanging student loan debt may deter banks from providing mortgages and loans. With so many millennials approaching important financial decisions, banks are in a unique position to decide between redefining risk profiles or losing millennial business.

Today millennials are impacting banks around the world. Behavioral research should be used by banks as leverage to secure millennial customers. Millennials are forecasted to inherit over 30 trillion dollars within the next 35 years[5]. This generation will have an indelible impact on the banking industry; it would be unwise for banks to not prepare for the future.

Forecasting UX Banking Trends Geared Toward Millennials

The escalation in digital banking and omni channel presence must be met with an increase in digital customer centricity. Acquiring and retaining customers digitally requires a unique balance of bold sales strategy and conscious customer input. User Experience (UX) strategy is an important key in harmonizing corporate and consumer goals. With predictive data about millennials and observations of their effects on other industries, banks should prepare to transform their customer journeys to ensure ease of customer engagement to support ongoing relevance within the industry.

Customer Centric vs. Company centric

A strong User Experience (UX) strategy finds equilibrium between company goals and consumer goals. The retail industry has done better than most industries at incorporating strategic UX into their online platforms. Large online shopping portals, such as Amazon, have developed insightful UX strategies that leverage their site visitor's data into relevant and timely recommendations. Shoppers are often greeted with messages of prior items they have viewed. This strategy highlights two important aspects of UX centered toward millennials: engagement and personalization. This customer centric approach should be implemented in banks. A prospective millennial customer browsing for credit cards will likely engage and leave a bank's website multiple times before making a decision to apply. Banks can increase conversions by using customer data to recommend certain credit cards. Functionality entices millennials by giving them the personalization they desire and minimizing the amount of time they have to spend doing their own research. Personalization and efficiency are two characteristics that drive millennial consumption and loyalty. Banks should leverage customer data and take inspiration from other industries succeeding in attracting millennial consumers.

Furthermore, banks carry a stigma of being complicated. Millennials are accustomed to streamlined online experiences where pre-filled portals, AI, and customized journeys make their online experiences effortless. Banks are infamous for complicating user experiences by providing too much information, tools, or distractions that impede their customers' initial goals. Millennials are not impressed by countless features and tools unlike prior generations and prefer to spend the least amount of time possible managing their banking and finances. Banks must reevaluate their UX strategies to ensure they are on par with their customers' expectations. Banks must develop websites, apps and tools that allow customers to engage in journeys that are most relevant and easy to understand. It is much better to offer one simple feature and overdeliver than offer many features lacking relevance to consumers.

In the coming years banks will see a trend moving away from company-centered journeys to more streamlined, customer-centric ones.

The Importance of User Experience Strategy

Most banks' do not have a holistic, comprehensive UX strategy. Financial Instititions must break down internal barriers, invest in understanding their customers, monitor trends and implement new service features that are highly relevant. Strategic UX is not a one-time design and implementation, but rather a process of collective and systematic operation that conforms and adapts to new trends, needs, and desires. Banks should reevaluate data methodically, paying specific attention to the changes in customer behavior. Adapting and remaining current boosts customer satisfaction and improves brand relevance.

A common problem many large banks face is fractured User Experiences. This arises from different teams working on various fronts of a company. For example, most banks' credit card teams have different business units working on similar customer journeys. Marketing, mobile app, coding, and content teams might work on the same journey withithout communicating. This leads to a common problem in banking. Journeys become inconsistent, customers are barraged by ineffective calls to action, and innudnated with inappropriate marketing material. Where fractured customer experiences exist, friction forms between the bank and their customers.

As banks adapt to millennial expectations, they should reconsider how internal structures need to be improved to ensure customer satisfaction.

Big Data: Creating a Competitive Advantage

The ability to use customer data effectively is not being leveraged by banks. As stated before, millennials' biggest complaint from their interactions with banks is that they are not being sent relevant marketing material. Banks must leverage their data to appeal to the emotions of this emerging generation. For example, a recently graduated millennial new to the workforce will have very different goals than an established Gen X professional. When arriving on a bank's homepage the millennial could be greeted with marketing messages aimed to their goals. The millennial could receive notice of discounted interest rates for savings accounts, an option to refinance student loans, or a financial tool that helps with budgeting. Banks have the tools, data insights, and profitabililty to market well to all their customers. Most banks are becoming aware of millennial desire for individualized experiences and using individual data to construct customized journeys.

Corporations walk a fine line when leveraging consumer data. Millennials are aware their data is being used and are more open to data personalization's perks than Gen X and Baby Boomers. Millennials' main concern is that companies respect their data and leverage it in ways to benefit the end consumer. Transparency is key when using consumer data, 95% of millennials say they will be loyal to a company with transparency and business practices they can trust[11]. Banks have a large opportunity to gain loyal customers if data is used well to create emotional, relevant and timely messages. From data collected, banks could change simple things such as banner images or home page pop-ups that directly relate millennials. A millennial looking to buy a house is more likely to explore a bank's offerings if they are greeted by a mortgage advertisement versus a retirement savings image. Emotional appeal is large factor in attracting and retaining millennial customers.

Future Trends: Predictive Technology

In an effort to create streamlined and efficient user journeys many businesses have adopted chatbots and live chat across many industries. These functionalities (as they get smarter and more useful) are becoming extremely popular, "92% of consumers are satisfied with live chat, making it the highest-rated engagement channel[12]." Chatbots facilitate user journeys by answering questions and guiding customers to their desired destination in a way that many millennials prefer; texting and or messaging. The use of predictive technology is likely to become more prevalent in banks. Many have already adopted chatbots and predictive technology on to their main sites. However, currently, banks appear negligent about adding them to their mobile apps. With mobile apps becoming one of the most used platforms in banking, chatbots should make their way into the mobile applications of banks. Chatbots add to customer satisfaction and can even decrease overhead costs if banks reduce human customer service departments. Although chatbots have seen tremendous success, there is still opportunity to incorporate additional technology into banking websites and journeys.

The rise of automated voice-controlled systems such as Amazon Alexa and Google Home provide new avenues to reach consumers. Although these systems may not have impacted banks largely since their roll out, it would be unwise for banks to not strategize about plans in the future. As these systems become more embedded into consumers' lives, banks will need to incorporate relevant functionality into long term strategic plans.

Predictive technology such as chat bots may even make it to physical branches. Banks have begun investing in customer engagement technology to innovate customer in-branch experiences. HSBC rolled out a new customer engagement system dubbed, Pepper, which offers an appealing and personable alternative to waiting in line to see a teller via a robotic interface. Pepper greets customers, can help with specific inquiries, and briefs tellers of customer needs. It has both increased customer satisfaction and even improved employee morale[3]. There are many technilogical advancements that will enable exciting enhancements to customer journeys in the coming years.

Conclusion

The millennial population continues to grow and gain power in the consumer marketplace. They are the largest living generation in the United States whose annual buying power is over $600 billion[13]. Banks have a unique opportunity to gain millennial business as they emerge into financial maturity.

Millennials have strayed from choosing brands or companies. This consumer population has drifted from the practices of previous generations. Millennials attach more moral weight on their corporate interactions and see their involvement with companies as a reflection of their own values and interests. Millennials are inclined to engage with socially responsible and innovative companies that consistently deliver memorable experiences. Although prospecting for millennial clients may be challenging, they tend to be the most brand-loyal generation[13]. Banks should prepare to invest in captivating millennials as their loyalty will increase profitability in the long run.

Traditional banks are struggling to restructure to satisfy high millennial expectations. Trends such as customer-centric design, predictive technology and effective data usage are imperative for banking future success. Millennial dependency on streamlined experiences means banks must reevaluate and reinvest in their UX strategy. Those who do will reap the rewards of this loyal and profitable generation.

For more information, questions, or comments please contact us at hello@thegoodlife-consulting.com or visit our website at https://thegoodlife-consulting.com/

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