Banking & Payments

Report Code: GDPE2274ICR

June, 2022

Millennials:

Banking the opportunity

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Executive Summary

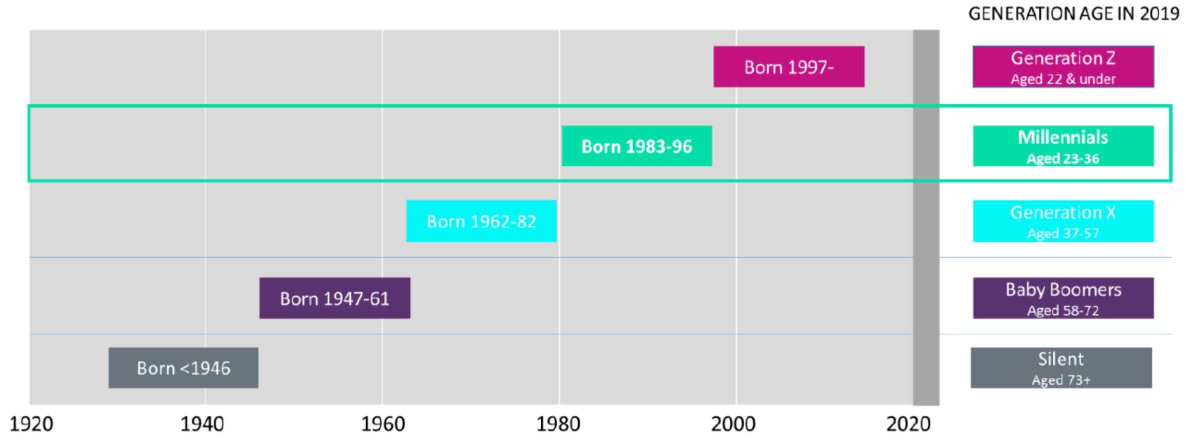
In the last two decades, millennials have matured in terms of their size, economic strength, and socio-cultural influence. Many millennials are well into their careers and are ready to invest and use financial advice. Their current and imminent financial commitments – such as paying off tertiary education, and buying their first house or car – will fuel growth in the banking sector for the foreseeable future. The industry must respond with relevant strategies that leverage the shifts in banking behavior and seize the maturing opportunity.

Key Findings

- Millennials prefer non-cash payments by a large margin.
- Millennials are highly likely to be heavily indebted. Lenders would do well to to capitalize on this by finding ways to assist millennials in dealing with this debt.
- Millennials are more likely to experience a number of key life events in the coming years. Banks can capitalize on this with targeted products designed to facilitate these events or mitigate the disruption they cause.
- Millennials still make safe/conformist choices about where to bank. They express moderate satisfaction with their product holdings, although there is a real interest in new (particularly digital) product features.

Millennials are a key audience for retail banking

Figure 1: GlobalData's age demographics view millennials as born between 1983 and 1996



Source: GlobalData © GlobalData

Also known as Generation Y, millennials are distinct from the surrounding generations based on their unique formative experiences, which include pronounced technological, economic, and social shifts. In the last two decades, millennials have matured in terms of their size, economic strength, and socio-cultural influence. Understanding their lifestyles, goals, and behavior is key given their status as a fast-rising financial services market. Millennials' current and imminent financial commitments will fuel growth in the banking sector. Many millennials are ready to invest and use financial advice, and the financial services industry must respond with millennial-relevant strategies.

The size of the millennial generation alone is justification for an elevated focus on them regardless of industry. Demographers for the UN and Pew Research estimate that millennials first outnumbered baby boomers a quarter of a century ago. Today, millennials account for around a third of the global population. In China, where millennials account for 22% and 28% of the country's total and adult (20+) population respectively, it is estimated that millennial numbers exceed the entire US population. This is symptomatic of how nearly 90% of global millennials live in emerging economies because of the impact of lower birth and death rates in advanced economies. Strong representation across regions means that millennials represent a global demographic cohort of over 1 billion individuals.

Millennials favor non-cash payments by large margins

Our research has found that millennials' preference for cash payments is among the lowest relative to other generational demographics. However, consumers across generations are more content using plastic, even if credit cards have lost prestige compared to how they are viewed by the older generations. Instead debit cards are the default payment tool (as seen by the degree of current account penetration).

More variation exists in non-debit card penetration among millennials, both between card types and in terms of penetration across countries. Globally, 68% of millennials own a credit card. This is notably higher than among Generation Z, which reflects credit card penetration spiking significantly from the age of 25 and above (i.e. after individuals enter the workforce). Progression in credit card penetration occurs from Generation Z (44%) through to baby boomers (76%). After all, older cohorts generally benefit from improved financial wellbeing. They will be attuned to a diverse range of credit card rewards, safe in the knowledge that their elevated wealth will help ensure they avoid fees that accumulate from missed and/or delayed credit card payments.

Banks need to work on the debt aversion of indebted millennials, particularly in developed markets

A precautionary mindset towards credit card ownership or usage (like that uncovered in the Experian research) is understandable given the escalating level of debt that characterizes the lives of younger millennials and Generation Z. Rising tertiary education fees have left millennials globally with a debt burden that weighs heavily on their financial wellbeing during their formative years in adulthood. For example, student debt for the typical US college bachelor's degree increased 164% from 1990 to 2015 according to Department of Education data. In a survey of 500 Americans conducted by financial advice website Credible, among individuals currently experiencing credit card debt over a third cited debt as the scariest aspect of their daily lives.

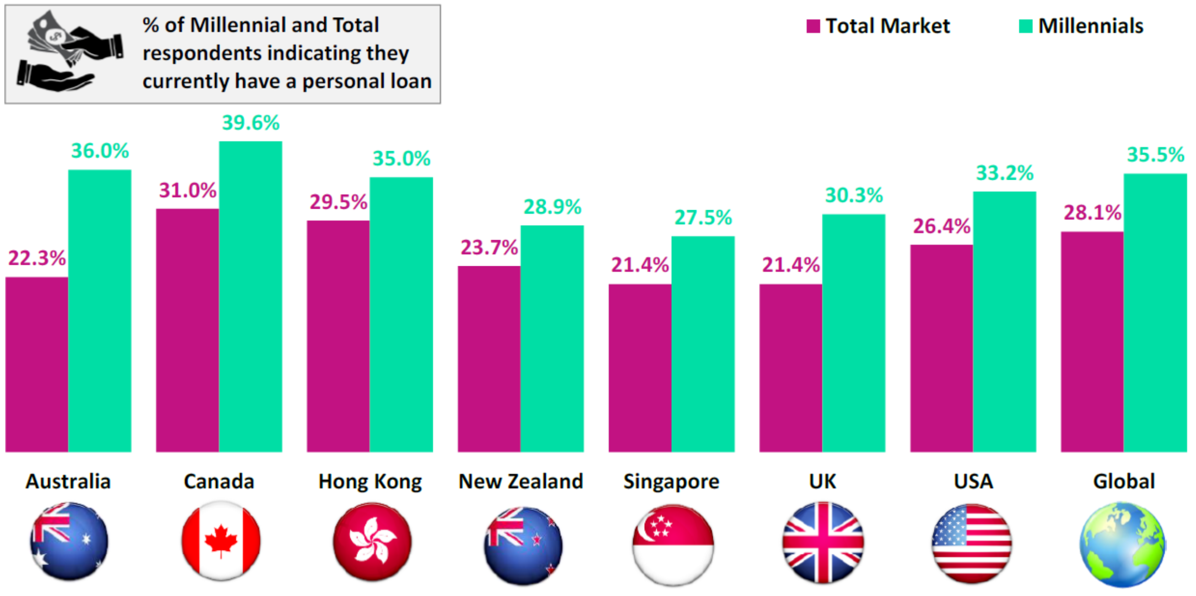
Debt anxiety is not unique to North America. Experian's 2016 State of Credit report showed Australian millennials (age 34 or under) are the most credit-dependent demographic, with significantly higher debt and financial stress levels. In the UK, where credit card penetration among millennials (63%) is low relative to the US, the chief executive of the Financial Conduct Authority has warned of a "pronounced build-up of indebtedness" having a disproportionate effect on young people. A UK parliamentary committee estimated that student loan debt will surpass £1tn over the next 25 years. So any debt aversion is entirely predictable given the greater cost of higher education in most survey countries, along with the greater requirement for post-secondary schooling to be competitive in the job market.

However, this does not invalidate the attractiveness of millennials, who as a cohort with considerable schooling have the best chance to be higher earners. Lenders need to develop programs to assist with efficiently tackling student debt, which will unlock the ability for these lenders to extend further credit to these highly educated individuals.

Lifestage and generational circumstances have prompted a heightened need for loans

Millennials globally are 1.26 times more likely to have a personal loan versus the general market population. Loan penetration of 35.5% compares to 28.1% overall. The propensity to hold a loan broadly follows a bell curve. Penetration peaks at ages 25–34 (37.3%) and then tapers off throughout the later lifestages.

Figure 7: Millennials are 1.26 times more likely than the general market to hold a personal loan



Source: GlobalData's 2018 Retail Banking Insight Survey © GlobalData

Millennials' higher propensity for loans relative to other cohorts is evident across all featured countries. It reflects a generation having to cope with financial burdens that others have not faced (most notably escalating tertiary education costs), as well additional financial pressures eventuating from key life events experienced by many older millennials (as covered in the following chapter). Highlighting this on a country level, the UK's Institute of Fiscal Studies found that young people are more financially insecure than previous generations when analyzing the evolution in household wealth between 2006–08 and 2010–12.

Millennials have emerged as the most important generation-based mortgage market

Many broader socio-cultural trends are impacting the mortgage market for millennials internationally, with younger people less likely to own a house than prior generations because they are (or at least feel) locked out of the housing market by rising property prices. A report by the Urban Institute (a US-based policy research group) estimated that the home ownership rate among US millennials aged 25 to 34 is 8 percentage points lower than when Generation X and baby boomers were in the same age range. Millennials are therefore coming to see home ownership as something to be earned rather than an entitlement.

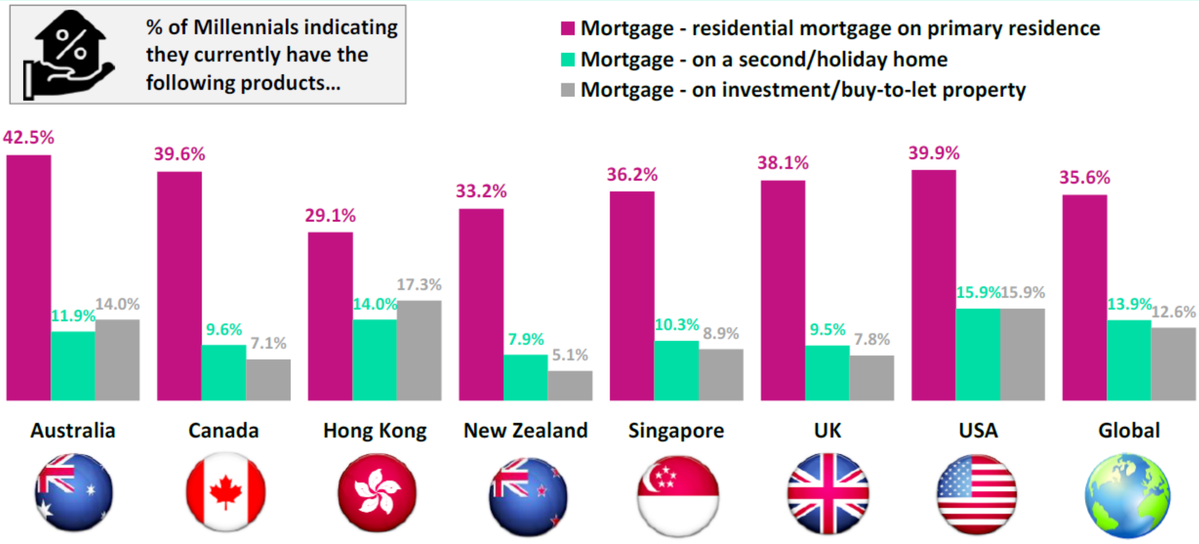
Millennials' mortgage journey has been delayed due to market and social conditions

Socio-cultural trends such as declining marriage and fertility rates, the delayed age of the first child, and a rise in student debt are causal influences in what constitutes a generational gap in financial management maturity. Home ownership being directly correlated to these life events has also placed downward pressure on mortgage markets. So too has millennials being burdened by higher levels of student debt for an extended period compared with their generational predecessors. As such, they have been labeled Generation Rent because many are unable to own.

Lifestyle attitudes and behaviors have played a role too; individualistic and experience-minded millennials are notorious for looking for new ways to add excitement to their daily lives. Consumer insight studies supporting new products and marketing campaigns across the globe commonly reveal how much millennials value mastering new skills, tackling seemingly insurmountable challenges, acquiring knowledge, and partaking in novel activities. That is because social currency – or simply cultivating an aura of being interesting among one's social groups – is now derived from what people know and do, rather than what they own or consume. This is a generation that suffers from "thaasophobia," which is essentially the fear of boredom, or even worse the fear of being boring themselves. The longer-term outcome for both Generation Y and Generation Z is that they will buy homes later in life, or not at all. Both generations are therefore more likely to enter old age with less financial security than prior generations.

Despite the many circumstantial pressures on millennial mortgages (especially those at the younger end of the cohort), these consumers still represent the most important lifestage-based mortgage market in terms of penetration. Globally, 43.8% of millennials have a mortgage holding (versus 39.5% overall), with 35.6% penetration for a residential mortgage on a primary residence. In addition, many millennials are only now entering their peak home buying years (generally regarded as around 25–45 years of age).

Figure 10: Just over a third of millennials globally have a residential mortgage on a primary residence



Source: GlobalData's 2018 Retail Banking Insight Survey © GlobalData

Amid high and rising levels of indebtedness – coupled with mortgages beginning later in life – many millennials will increasingly need to cover mortgages with their pensions if current trends persist. Only the longer-term prospect of intergenerational wealth (i.e. having their parents' accumulated savings to spend) offers any meaningful comfort from the debt burden. Indeed, millennials do at least stand to benefit from an inheritance boom, as baby boomers – the richest generation in history – transfer their wealth in what will amount to record sums of inheritance. In addition, the wealth is expected to be more concentrated owing to the millennial generation being smaller than the baby boomers they are inheriting from. Yet baby boomer wealth is heavily concentrated among the wealthiest minority, and older generations are living longer on their accumulated wealth. And the possibility of inherited wealth in the future does little to assist with the need for an immediate mortgage down-payment among millennials aspiring to get onto the property ladder.

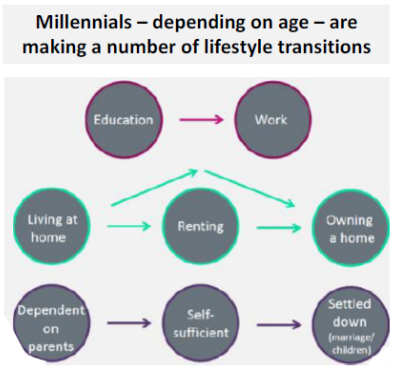
Millennial lifestyles are characterized by life-defining events

Effective age- and generational-based targeting requires empathy with the broader circumstantial factors that influence the attitudes, behaviors, and overall lifestyle of a target group. Many lifestyle-defining issues – such as career aspirations and starting families – are not unique to millennials. But in other ways they are unique, due to the long and winding path to adulthood that has seen millennials delay major life events. The fact that many millennials were in education – not to mention the formative stages of their adult life – during the financial crisis in 2007 makes them uniquely and negatively impacted from a financial perspective. And this generation is exerting its strongest influence on the workforce at a time when pensions and other retirement benefits are on the decline. Meanwhile the cost of raising children has never been higher.

Acknowledging the significant intra-generational variations is important too. There are a number of transitions millennials will make that involve moving from being dependent on their families to assuming responsibilities of their own. A millennial in their early 20s will likely lead a very different life from a millennial approaching their late 30s. They will be at divergent points in their professional and financial lives, with older millennials more fixated on important financial milestones such as home ownership, raising children, and saving for retirement.

Figure 14: Millennials' financial priorities are anchored by a number of key lifestage events as they adjust to a new phase of life

	Moving home	Changing jobs	Having a baby	Getting married	Start a business	Begin part time education
% of Millennials anticipating in next 2 years	36.7%	30.9%	30.2%	18.6%	17.6%	16.0%
Millennials index vs general market	162	173	211	216	169	163



Source: GlobalData's 2018 Retail Banking Insight Survey © GlobalData

Millennials are poised for life change, and will require financial products to support them

Our research exploring consumers' expectations of events within the next two years showed that millennials over-index versus the general market population for each major event (with the exception of retirement). Financial providers cannot afford to miss out on a potential long-term growth opportunity to support millennials' everyday financial needs and important life events. It means treating these particular chapters of adulthood as opportunities to solve lifestyle pain points that stem from newfound financial responsibilities and challenges. The first question: how can providers support consumers' lives through core challenges (e.g. getting married or becoming a parent)? For example, Bank of Montreal offers free student banking for an additional year after graduation. Secondly, what value-added products and services are needed to tap into their unique adoption of digital consumer products (e.g. helping to manage their Uber expenditure)?

Millennials are more likely to be contemplating married life and starting a family

Social research across nations shows that millennials are less likely to be married or to have children than earlier generations were at comparable ages. Commonly referred to as "boomerang" children in many Western nations, millennials have also been more likely to spend years of their adulthood once again living with their parents. A ripple effect of this has been to put less priority on large investments like marriage and home ownership.

Millennials are nevertheless 2.1 times more likely than the total population to be expecting a baby (personally or in their immediate family) within the next two years. Similarly, global millennials are 2.2 times more likely to be contemplating getting married or undertaking a civil partnership. The significant skew towards imminent marriage and child rearing is apparent across nations, although the US is an anomaly because the age at which US women become mothers varies significantly by geography and education level. First-time mothers are around half a generation younger in rural areas, the Great Plains, and the south compared to the big cities and the coasts. The outcome of this social trend is that the US's Generation Z are more than two times as likely as their global counterparts to be imminently starting a family. The higher propensity to have children at a younger age also influences why US Generation Z members are more likely to be contemplating marriage than millennials.

Millennial attitudes and actions warrant special focus

Millennials express moderate satisfaction with their product holdings

Millennials are renowned for being demanding customers because they are empowered by more choices and more information at their fingertips. They are often cited in research around the supposed failings of the financial services industry in connecting with younger consumers. However, our Net Promoter Score (NPS) findings reveal that millennials do not necessarily hold banks with the contempt some studies suggest. Our research is best summed up by the word "indifference" – and millennials are certainly not the only generational cohort expressing indifference towards financial service providers.

NPS is a commonly used measurement worldwide for customer experience management. Using a 0–10 scale to determine how likely respondents are to recommend a banking product to a friend, we have classified respondents as either promoters (score: 9–10), passives (score: 7–8), or detractors (score: 0–6). Detractors are discontented customers who can damage brand reputation and growth prospects through negative word of mouth. In contrast, promoters are product and brand enthusiasts who positively refer others. Passives are broadly satisfied, but are largely unenthused and therefore susceptible to competitive offerings.

Positive sentiment among millennials towards providers of their current accounts, mortgages, and loans outweighs the negative. However, the ambivalence of passives is the strongest sentiment regardless of country. This is apparent from the global mean score of 7.7 attributable to both current accounts (overall NPS of +13.6) and to residential mortgages (NPS of +2.3).

Globally, little variation exists in NPS by generation, with the range sitting between a low of 7.6 among Generation Z and Generation X and a high of 7.8 among the oldest age cohort of respondents. New Zealander millennials spearhead the positive ratings for current accounts (NPS of +29), with the country accounting for the highest proportion of millennial promoters (43%). In Hong Kong, detractors (36%) notably outweigh the lowest proportion of promoters (13%) recorded across the featured countries. This is important, as millennials are also more reliant on advice from their social network. This means a promoter among millennials has the potential to convert many more to a product, with a detractor acting as a significant deterrent.

Millennials rate their mobile banking experiences positively

Smartphone owners – supported by more expansive and faster mobile networks – are increasingly using mobile devices to bank, research, shop, and pay. ING research from 2018 revealed that smartphones and tablets are unsurprisingly the most popular devices for mobile banking by some distance – and the share of consumers who use these devices to bank is expanding every year. The data presented below covers the European response, but ING notes that "the picture is similar in the USA and Australia."

Mobile banking usage is supported by high satisfaction

Our 2018 research extended beyond NPS by assessing sentiment towards mobile banking services. Millennials express high levels of satisfaction towards the various user experience components that characterize mobile banking services. With the exception of Hong Kong, respondents range from being "fairly satisfied" and "very satisfied" with the ease of logging in (mean score of 4.51); the ease of navigating the service (mean score of 4.43); being able to do what is needed (mean score of 4.35); and the overall experience (mean score of 4.37). This level of satisfaction has underpinned millennials' comparatively higher usage of mobile banking, and is a major driving force behind soaring growth in this channel.

Millennials could be making better use of banking product features

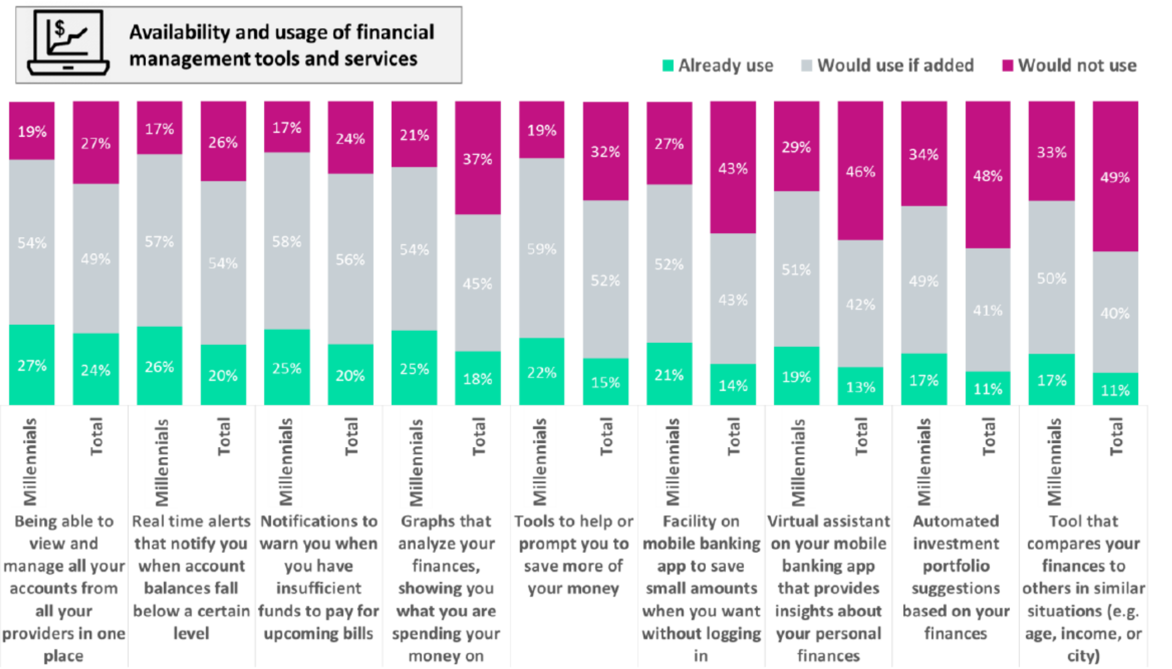
A wide range of financial management tools are desired but not widely used

Our research probed retail banking consumers across generations about various financial management tools and services. We anticipate providers moving to offer additional value through purely digital financial management tools and tailored advice based on in-depth analysis of the customer's own transactions. After all, the shift to digital will likely bring a shift in expectations of what a bank is supposed to do. Software that enables tracking of transactions, payments, and other financial data in real-time to provide better recommendations will assume more importance in the future.

Currently, millennials generally report low usage levels across a broad array of tools that are becoming more commonplace within retail banking propositions. However, usage is generally higher than other generational cohorts. Millennials, and indeed the general market population, indicate a strong inclination to embrace financial management tools if they were available (or if their availability was advertised more clearly). This suggests there is a real opportunity to better engage customers with an array of digital tools.

Predictive analytics that help users manage their finances will resonate with cash-strapped millennials

Figure 29: Millennials generally report low usage levels for financial management tools



Source: GlobalData's 2018 Retail Banking Insight Survey © GlobalData

Millennials across all countries are more likely than the general population to say they use, or would use if added, a number of financial management tools. Yet only one of the nine tools we asked about was used by more than a of millennials. This finding exists against a backdrop of 73% of millennials in the US not having a monthly budget, instead preferring to just have a general sense of where their money goes each month (60%).

In the age of the information and knowledge economy – when digital and information-rich tools are increasingly valued – this is not a particularly healthy benchmark for the retail banking industry. Without understanding their everyday living expenses, millennials could find themselves spending significant amounts on incidental costs. The findings suggest that the financial management information banks provide to customers is generally perceived as being stodgy and uninteresting. They also highlight that there remains a fundamental need for a better customer service experience that includes more digital/mobile services and interactive money management tools.

On the other hand, the findings could also be influenced by banking customers only valuing a topline overview of their spending habits. Perhaps this is because the reality of people's unsustainable, debt-enabled daily spending habits is too problematic to confront in a detailed and analytical manner (akin to burying one's heads in the sand). Regardless, providers across countries should explore what would convert the high levels of latent interest expressed by all consumers – and millennials in particular – towards innovative customer usage tools.

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