A First Data White Paper

There’s no slowing down millennials

Capitalizing on a growing and influential generation

People born between 1981 and 2005 are an 80-million member juggernaut that is bigger and more diverse than any U.S. generation before it. For the financial services industry, millennials mean business. Their lifestyle and preferences represent a dramatic shift that’s just getting started.

Millennials: Who are they and what makes them tick?

Millennials have been molded by three major forces: the economy, globalization and social media. Combine that with the experiences of the last decade and no wonder it's a segment that relies on peers over institutions, and dislikes being penned in by a check box.

Having lived through media saturation since birth, they're savvy consumers by default. As a whole, they've had technology at their fingertips by the time Napster was a distant memory. Some of them can't remember 9/11, but just about all of them are checking in with friends at all hours.

Over half have played 10,000 hours of video games before age 18.

Still years away from their peak earning years, they're already transforming how we're finding, deciding on and paying for products and services. With phone in hand, they're on their own schedule and getting things accomplished with a swipe and tap.

With all of their on-the-fly pace to life, they're actually a practical bunch. They also emphasize stewardship, seek long-term stability, and—because they require affordability—view technology not only as a time-saving convenience, but also as an essential part of saving money.

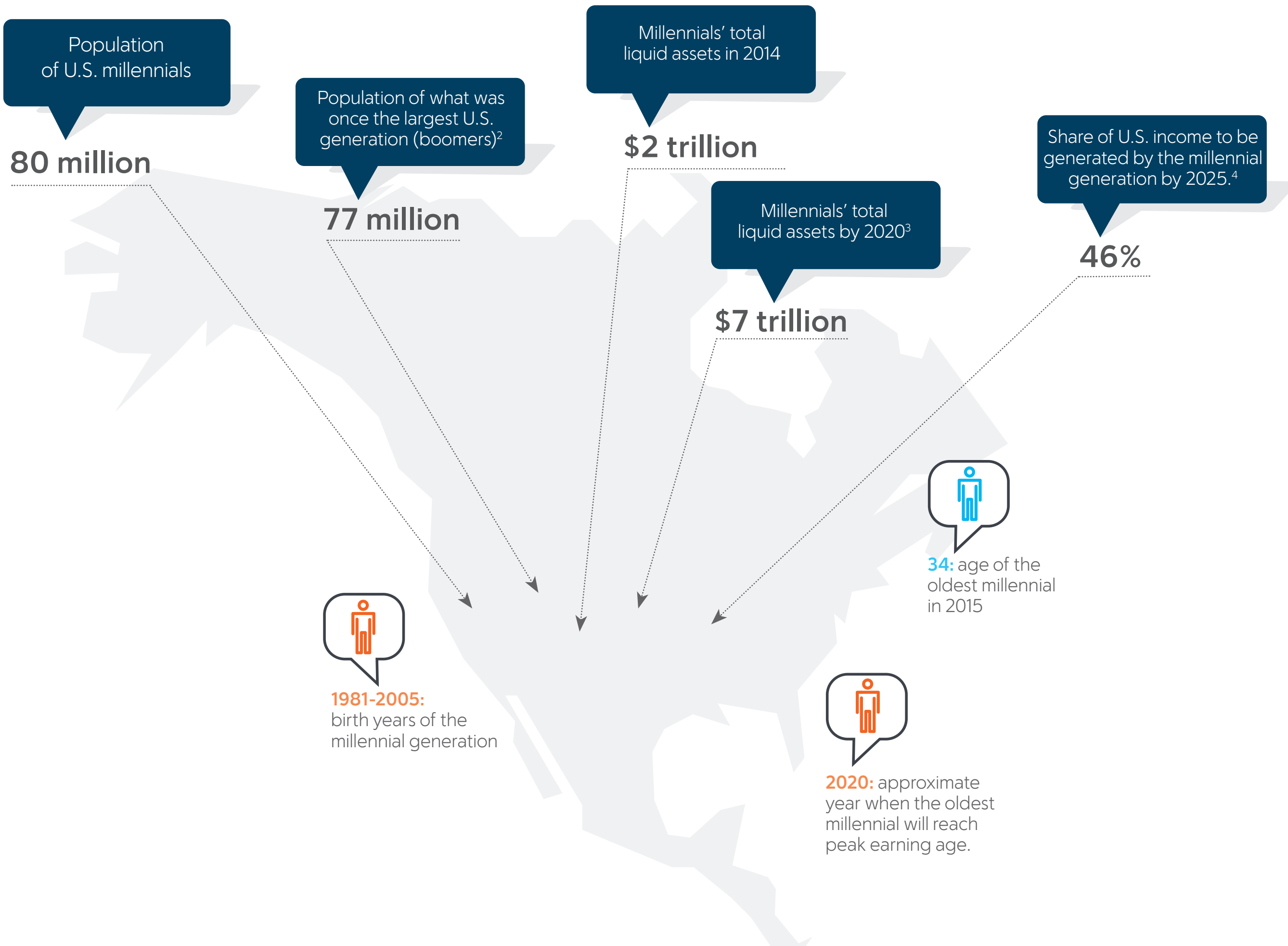
If technology hasn't affected how the banking industry is evolving their electronic services, it should.

Remember the boomers? Now think bigger.

The stakes are huge. As the most numerous generation in American history, millennials are about to eclipse Baby Boomers in just about every way.

Despite all of the buzz about twenty-somethings moving back with their parents, today's millennial segment controls approximately $2 trillion in liquid assets. By 2020, the number is expected to more than triple. And that will get vastly bigger as millennials enter their prime earning years.[1]

[1][Wealthfront]



Millennials and banking

The relationship between twenty-somethings and financial services is a bit of a moving target, which is all the more reason to place emphasis on a lifestyle of access and convenience.

According to a three-year study by Scratch/Viacom Media Networks, 71% of millennials would rather go to the dentist than listen to what banks say. Another third (33%) believe that in five years they won't need a bank.

What about loyalty? The same study indicates another 33% are also "open to switching banks" in the next 90 days.

So how are millennials using banks? The top activities are checking account balances, paying bills, and transferring money. More than half of the millennials are already transferring money via digital channels. Another 43% list online banking as the first or second most valuable aspect of their day-to-day banking experience and 23% list mobile banking.[5]

[2] [National Association of Estate Planners & Councils (NAEPC)]
[3] [Wealthfront]
[4] [Business Intelligence]
[5] [TD Bank]

How are twenty-somethings using banking services?

21% millennials have never written a physical check to pay a bill.[6]

27% would consider a branchless digital bank.[7]

71% would consider their banking relationship to be transactional rather than relationship driven.[8]

48% are interested in real-time and forward-looking spending analysis.[9]

41% twenty-somethings* prefer to communicate electronically at work than face-to-face or even talking by phone.[10]

80% of twenty-somethings agree that saving money is important right now. But only 20% have a 401K[11]

63% of adult millennials don't have a credit card. By comparison, only 35% of consumers over 30 don't have credit cards.[12]

71% of millennials would rather go to the dentist than listen to what banks say and 33% believe that in five years they won't need a bank.[13]

41% of twenty-somethings downloaded a money management app.[14]

30% of at-large consumers say loyalty to their financial institution is unimportant, a figure that has been increasing for a decade.[15]

The financial services metamorphosis

According to Accenture, the most innovative banks will no longer think of themselves as mere providers of financial products and services, and enablers of transactions. They will be solution providers that play a greater role not just at the moment of transactions, but before and afterwards as well.

In other words, the financial services landscape is changing. And the forces of a generation are making an impact.

While traditional banks have been competing with one another to increase their client base, less conventional competition has been making inroads into banking's domain.

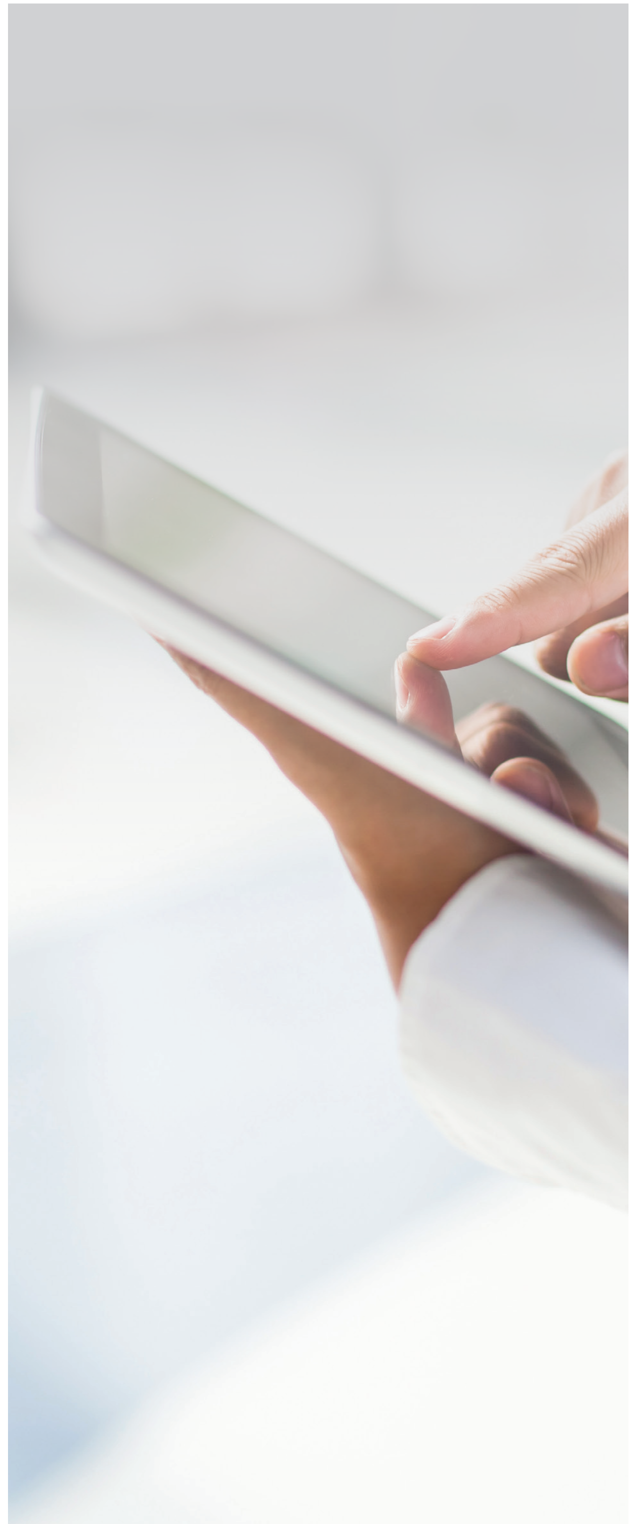
For instance, social lending or person-to-person or peer-to-peer (P2P) lending, which matches lenders seeking a rate of return for their money, may be changing how millennials view loans.

From the banker's perspective, 23% of decision makers in the financial services industry view discrete financial services such as Apple Pay, PayPal, etc., as a threat to the banking industry. Another 13% indicated that technology vendors are a competitive factor as well.[16]

Probably the more important piece to the P2P conversation is the way in which consumers want to able to easily send and receive money between friends.

[6] [Business Intelligence]
[7] [Accenture 2014 Digital Banking Consumer Survey]
[8] [Accenture 2014]
[9] [Accenture 2014]
[10] [PriceWaterhouseCooper survey of 2011 college graduates*.]
[11] [TRU Study]
[12] [Bankrate and compiled by Princeton Survey Research Associates International]
[13] [Bankrate]
[14] [TRU Study 2013]
[15] [Temenos 2014]
[16] [Temenos 2014]

Whether it's settling last night's bar tab among friends or someone fronting concert tickets, millennials are increasingly using online payment methods in place of cash and checks. A 2013 CustomerMonitor Survey found that 47% of consumers have already transferred money to someone electronically. This growing acceptance of P2P is an opportunity for financial institutions to differentiate themselves with an innovative new service that complements existing online bill pay and money transfer services.



Technology, technology . . .

Naturally, the digital realm is a vital backdrop for issues surrounding how financial services and merchants can, and should, interact with the marketplace. It's not a matter of why. Instead, it's how fast.

Millennials intuitively understand disruptive technology, making them unique in their ability to recognize the services with the most substance. As creators and consumers of technology, millennials have an advantage in instinctively expecting the pursuit of whatever hasn't been created yet.

In terms of media and content, the millennial preference is that it be technology-driven. From a PriceWaterhouseCooper survey among 2011 college graduates, 41% say they prefer to communicate electronically at work rather than "face to face" or even by talking on the phone.

It's no surprise that 94% consumers under 35 years old are active users of online banking.

Companies wishing to engage this generation should also rethink interfaces in terms of interactivity, visual appeal and opportunities for personalized interaction and co-creation. "Collaborative touch points" and use of multi-media—aspects that might distract or annoy everyone born before the '80s—can be intriguing and comfortable to millennials, as long as the payoff resonates.

[1] 2014 AFP Payments Fraud and Control Survey, http://www.afponline.org/PressReleases.aspx?id=10737477563

How secure is that app, anyway?

Mobile apps are growing up fast. It's a matter of time before millennials are going to be more inclined to question their security.

According to a Deloitte Center for Financial Services report, 54% of consumers under 35 years old are concerned about the security of mobile devices for banking purposes. (As expected, a much higher 67% of consumers over 34 said the same.)

The right apps help address digital customers' expectations for immediacy and accessibility of essential information and services. And they further connect customers to their financial and non-financial lives, but financial institutions also need to be wary of the "build it and they will come" mentality. The market is crowded, digital disruptors are too agile and millennials are too savvy. What this means for banks is that they need to extend their thinking beyond development digital banking and mobile apps.

Financial institutions ought to take the long view of their mobile app strategy, which makes this question too important to ignore: what is our app doing differently to protect the customer from data fraud?

A mobile app can have the coolest of features but won't have staying power with this group—or any group for that matter—if it isn't secure. This is where layered security such as tokenization, encryption, and fraud detection services are going to be a necessary piece of the value proposition.

A digital strategy goes far beyond a beautifully designed interface. If the technology behind the scenes doesn't work, and work across a variety of channels, then it won't be doing its job.

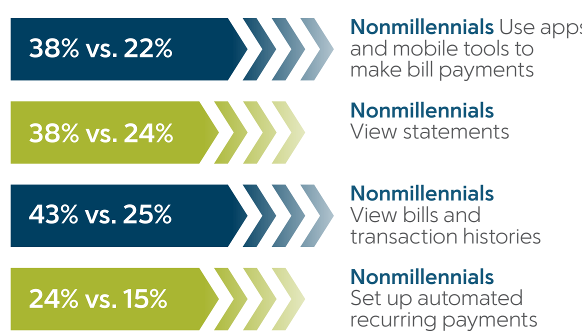
Payment service providers such as First Data are proving that barriers to mobile banking are becoming less significant. As an innovator of advanced technologies, First Data's role is to minimize risk and secure sensitive data; advances in predictive analytics and image capture technology are making digital, "faceless account enrollment" a reality.

Apple Pay as game changer

With Apple's introduction of Passbook and now Apple Pay, the concept is a game changer: consumers use their iPhone 6 to store what once packed their wallets (e.g., movie tickets, boarding passes, reward cards, etc.). With Apple Pay, the loop is complete: consumers are not only safely storing credit and debit cards in their Passbook, but they're able to—while standing within talking distance from a merchant with a POS—touch the iPhone finger sensor to initiate a transaction.

Millennials recognize the advantage of not having to hand over an actual credit card while making a purchase. As the trend continues, Forrester predicts that mobile payments will reach close to $90 billion by 2017.

86% of millennials 25-34 are smartphone users
[source: Neilsen 2014]



[source: Javelin Strategy & Research 2014]

The must-do list

Young consumers receive virtually all correspondence by email. Owning a checkbook? What's a checkbook? The arc of financial institution research zeroes in on a consistent and unsurprising set of preferences and expectations:

- ✓ Millennials expect real-time information on their deposit and credit accounts.
- ✓ Millennials expect their financial institution to keep current with their preference to transact electronically.
- ✓ Millennials expect "smooth and easy" from whatever device they're using that moment.
- ✓ Millennials love quirky personalization.
- ✓ Millennials expect to be able to decide what account information they want and how they want to receive it.
- ✓ Millennials are accustomed to seeing alerts based on choice of frequency and type of information they believe will help them.
- ✓ Millennials like options and control when it comes to their card usage.
- ✓ Millennials want to be able to flip through their mail, connect to a QR code, and gather new information on the fly.

Aside from recognizing that millennials resemble a tsunami, there are some basics that financial institutions should already be doing:

1. Be accessible in real-time all the time.

2. Communicate how they want to be communicated to (i.e., email and text reminders, alerts and promotions).

3. Have an app for everything: smooth and easy for all platforms, from whatever the device.

4. Be a partner; help millennials navigate toward a solution.

5. Demonstrate innovation: create experiences that are interactive and empower.

Millennials not only understand digital payment solutions, they demand them. The vast majority (80%) of millennial consumers pay bills online and just as many are making regular online purchases on Amazon and Ticketmaster.

Banks and other service companies can't afford the complications associated with complicated fee structures or asking for one-time payments. With high-ticket items, millennials are more inclined to expect a subscription approach for a service in the same way they accept paying a monthly sum for their gym, phone, and cable service.

In summary: Accommodate the desire for on-the-go convenience

For the banking industry and merchants to capture the hearts and minds of millennial forces, they need to keep innovating ways in which consumers can manage transactions, transfer funds, grow wealth, and learn (or ask questions). For now, it makes sense to keep ratcheting up services that can deliver convenience of on-the-go, around-the-clock accessibility.

Millennials are tied to smartphones, laptops and tablets especially, making it vital for financial institutions of have online services that work well across all platforms.

In the millennials' world, there is an app for everything. And banking should be no different. Mobile access to accounts and services, including mobile deposits, is vital.

Given the anxiety millennials associate with managing money, brands should seize the opportunity to be their customers' partner in navigating toward a solution—a state of empowerment—rather than being their hero in providing all the answers.

By extending payments out to the smart wallet, companies that need to bill customers on a regular basis are creating a deeper relationship with the customer and instilling a higher level of loyalty and satisfaction.

So while many of us pay our bills online today, we'll soon be doing it from devices that aren't even invented yet.

Want more? Talk to the experts who recognize how emerging innovations are reshaping how consumers will interact with tomorrow's economy. See us at firstdata.com.

Beyond
the transaction℠

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