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Tapping Into Generation Y: Nine Ways Community Financial Institutions Can Use Technology to Capture Young Customers

When it comes to technology, community financial institutions can better reach Generation Y customers by making sure they have the right strategies in place.

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Introduction

Community financial institutions probably have no better time to capture Generation Y customers than now, but they need the right technology to do so. This generation, roughly comprising people born between 1979 and 1999, is many years from its peak earning potential. Given the size of this market and its propensity to use technology to manage finances, community financial institutions must start preparing for the future.

Without question, the Gen Y market is vast—the result of what demographers call an "echo boom," reflecting the offspring of the post-war baby boomers. Estimates of its size vary depending on the birth years used, but regardless, banks are dealing with an immense number—as many as 80 million people in the United States.[1] These adolescents and young adults currently earn about $214 billion annually, according to research by the Center for Financial Services Innovation.[2] With annual income expected to reach $3.4 trillion by 2018, Gen Y will eclipse the earnings of baby boomers, who are expected to have an annual income of $2.8 trillion then.[3]

This means successful financial institutions must become savvy at marketing to Gen Y, using technology to reach them in ways with which they are familiar—such as online messaging, social networking and targeted offerings to mobile phones.[4]

Along with their immediate predecessors of Generation X, Gen Y represents the future of financial services consumption. Just like baby boomers do now, they will eventually hold the greatest portion of the nation's wealth, and they will need a safe place to keep their assets, in addition to borrowing for homes and saving for their children's education. Yet this group won't be visiting you at the branch often, as they'll be using the Internet and mobile devices as their main way of conducting their banking.[5]

Gen Y represents an enormous market for community financial institutions, and much of it is still untapped. For example, according to research by the Center for Financial Services Innovation, Gen Yers make up a much larger portion of the underbanked population than other groups, such as Gen X or baby boomers. More than half of people 25 and older were found to have a checking account, but only a third of 18- to 24-year-olds did.[6]

It's a generation that's proving to be elusive to traditional financial services providers. Those consumers aged 18 to 24 have shown far greater propensity to turn to non-bank resources to conduct many types of transactions, such as money-services businesses, grocery stores and big-box retailers. They are also less likely to turn to a financial institution for advice.[7]

Overall, Gen Y's experience with financial institutions has been mixed. On the one hand, these consumers are less likely to report having a pleasant experience at a financial institution: 25 percent said their visits were "not at all pleasant" or "somewhat unpleasant," according to the Center for Financial Services Innovation. That compares with 9 percent of older respondents.[8] On the other hand, research has shown that younger consumers are more willing to trust financial institutions in general.[9]

In order to capture a share of the next generation of consumers, community financial institutions need to get a handle on the technology Gen Y demands—or risk losing this generation of customer (not to mention subsequent generations) to bigger banks or other financial services providers. With baby boomers reaching retirement and their average incomes beginning to decline, financial institutions must be ready to acquire new business geared toward the future. Community banks that ignore Gen Y will face a struggle for future success as the average age of their customers increases and these customers' aggregate profitability declines. And in order to acquire Gen Y customers, financial institutions must start right away: Once consumers get used to specific financial behaviors, it becomes far more difficult to motivate them to switch, as they maintain banking habits that are viewed as easier and more familiar.[10]

Gen Y's Behaviors and Characteristics

The term "Generation Y" was coined in the early 1990s. *Advertising Age*, a marketing trade magazine, has been credited with first using the term in an editorial in 1993, as a way to distinguish the group from Generation X.[11] Gen Y is also often referred to as "Millennials" and "Echo Boomers."

Definitions of who makes up Gen Y vary. Aite Group defines the term as anyone born between 1979 and 1990, or those between ages 21 and 31.[12] Another method uses overlapping 20-year periods, such as baby boomers (1945-1965), Gen X (1961-1981) and Gen Y (1979-1999). This definition, used by Javelin, puts Gen Y consumers between ages 11 and 31 in 2010.[13]

Regardless, Gen Yers have developed a reputation for having elevated expectations and getting what they want. This is a generation that has grown up interacting with technology that evolves very quickly. This fact has fueled their expectation of having all types of information at their fingertips and accessing it quickly and conveniently.[14]

In approaching this market, community financial institutions must first ask two key questions, according to Aite. How is Gen Y different from previous generations? And what must be done to successfully market to Gen Y?[15] Here are a few traits to consider as you refine your technology platform to better capture this demographic:

They like to make money. Forget the myth that money isn't important to the younger generation. This mistaken belief has been furthered by Gen Yers themselves, seeking to set themselves apart from prior generations. Yet six in 10 of Gen Yers said that making a lot of money is as important to them as it is to their parents, according to an Aite report. And almost 25 percent say it's more important. Just 15 percent said it was less so.[16]

They move money easily. About 75 percent of Gen Yers moved money between accounts at least one time of the past half year, with 29 percent doing it six times or more, according to Aite. They also tend to check savings rates, with 53 percent checking them periodically, and 13 percent doing so weekly.[17]

They show greater online use. Gen Y also shows greater online banking adoption. Over a 12-month period ending in March 2008, 89 percent of Gen Y account holders had used online banking, versus 78 percent of all banking customers, according to Javelin.[18] They also like opening accounts online. About 30 percent of Gen Yers tried to open a checking account online, and 35 percent of those 18 to 24 years old. That figure compares with just 14 percent for Gen X and 12 percent for baby boomers.[19]

They are tech savvy. Gen Y is the first generation to grow up entirely online, and from an early age they have extensively used personal computers, mobile phones, e-mail, video games and the Internet. About 97 percent of them have a profile or page on Facebook or other social networking sites, according to Aite. About 35 percent have an Apple® iPhone® or iPod touch®. This is a generation that gravitates instinctively toward technology, whether they're using a mobile phone, downloading music or updating a Facebook page, notes Javelin.[20]

They give mixed signals on trust. Gen Y is quick to reject messaging with any hint of duplicity. This is a generation that has grown up with 24/7 news, including coverage of financial scandals and school shootings. Marketing to Gen Y will be "tricky and nerve-racking," warns Javelin.[21] At the same time, Gen Y says it trusts financial institutions more than their older counterparts, according to Aite. About 46 percent of Gen Yers "very much" or "somewhat" trust banks, compared with just 33 percent of older consumers. This is a good sign, since a high level of trust correlates to referrals and future purchases, Aite says.[22] And while trust in financial institutions dropped among 64 percent of baby boomers, 54 percent of Gen Y said that their trust in financial institutions remained the same over a 12-month period ending last December, according to a poll by MetLife Inc.[23]

They are less satisfied with their financial institution. Only 38 percent of Gen Yers are "very satisfied" with their bank, compared with 40 percent for Gen X and 50 percent for baby boomers.[24]

They like alerts. And Gen Y likes receiving e-mail and SMS alerts more than the average consumer, as they monitor their comparatively tighter cash flows, Javelin notes. About 38 percent of Gen Y consumers value alerts that tell them a bill is due or has been paid. That compares with just 31 percent for all consumers.[25]

They may be less aware of new products. Still, while Gen Y shows a strong propensity to own financial products and tap the online channel, their awareness of many new or innovative financial services Web sites remains low.[26] Among 27 Web sites, including personal financial management (PFM), person-to-person (P2P), production selection and credit-related services sites, few of the respondents had visited them, according to an Aite survey of 300 Gen Y users.

Reaching Gen Y: Nine Things to Consider When It Comes to Technology

To reach Gen Y customers now and down the road, community financial institutions can set themselves apart from their competitors by making sure they are strong in these nine areas:

1. Offer Robust Internet Banking and Bill Pay

Gen Y will use online banking and bill payment increasingly in the years to come. Overall, the bill payment market represents a $29 billion opportunity, growing 14 percent annually.[27] Despite this growth, bill pay remains a weakness among financial institutions overall, having lost ground to third-party biller sites. About 53 percent of Gen Y consumers used third-party biller Web sites during a 30-day period, compared with just 39 percent for bank and credit union bill pay.[28]

Community financial institutions need to offer a full portfolio of integrated Internet and online bill payment products that will enable them to capture and retain Gen Y customers. Gen Y has fewer bills to pay at present, yet they are more likely to pay bills online now and in the future, so now is the time to act.

Consider using an application service provider (ASP) solution, which gives you freedom to easily upgrade and modify your product. That means you can offer cutting-edge technology to Gen Y and keep it fresh. They'll demand the newest services as the market evolves. A robust Internet banking and bill pay solution can help improve your acquisition and retention of Gen Y.

Also keep in mind that bill pay creates "stickier" users, or those who will remain more loyal to your institution over time. Research shows that bill pay users are also far more profitable customers overall. A comprehensive system should include e-statements, check imaging, Quicken/Quickbooks downloads, real-time auto enroll, a credit card interface, mobile banking and external transfers. It should also be integrated with a PFM and offer Internet banking in multiple languages. Online bill pay should also be fully integrated with Internet banking, since this has proven to be one of the stickiest Web applications.

2. Allow Customers to Easily Open Accounts Online

Gen Y likes to see information on new products in a simple format, so they can quickly scan for appealing features. They also prefer an easy account application and opening procedure.[29] Gen Yers are twice as likely to apply for an account online, with 30 percent saying they do so, versus 15 percent for all consumers. Among those aged 18 to 24, the rate is 35 percent. Moreover, an automated process is cheaper for financial institutions to administer. Banks and credit unions spend about $60 to manually process an application—about four times the cost of an automated process.[30]

It is vital for community financial institutions to get this right. All too often customers fail to complete a cumbersome application, leaving them frustrated. About 39 percent of consumers who attempted to open a checking account online had to eventually go to a branch or phone the financial institution in order to complete the process, according to one Javelin survey. Women skewed even higher, at 54 percent. This is enough to scuttle the chance of gaining a customer, as one in five applicants overall do not live near a branch and depend on online services for all their banking needs, according to Javelin.[31]

To make it simple and quick, opening an account should take only a few minutes for new customers and less for an existing one. The platform should determine whether to accept, reject and fund most applications in one session. Community financial institutions should give immediate access to funds and give customers a selection of using a credit card, debit card or transfer in order to fund an account.[32] Switch kits are also a necessity. These kits help customers conveniently unravel sticky features such as direct deposit and bill pay from their former bank.

3. Offer Ubiquitous ATM Access, Surcharge-Free

Lack of ATMs remains a top reason Gen Yers leave their financial institution, as they don't like getting slapped with high fees for cash withdrawals. This demographic uses ATMs frequently, as they are a group on the move—heading off to college or relocating to another region to build their careers.[33] But this doesn't mean community institutions have to relinquish these customers when they move. Surcharge-free ATM networks such as Allpoint® and MoneyPass® allow community institutions the ability to compete on a national scale with large banks that have thousands of ATMs. The networks offer transient Gen Y customers greater access and flexibility. Community financial institutions can promote their extensive network to Gen Yers by including ATM locations in their sales pitches to existing and prospective customers.[34] Community financial institutions should also consider upgrading their legacy ATMs to next-generation Windows®-based systems that enable customers to perform a greater variety of banking activities in a more sophisticated user-friendly interface.

4. Offer Online Personal Financial Management Platforms

PFM platforms help customers view their combined balances from all financial institutions on one dashboard, helping them budget and control spending. These platforms have recently become an essential offering in a financial institution's portfolio. Customer loyalty rises with this tool: About 45 percent of consumers overall say these tools would have "a strong effect on their intention to remain a customer," according to Javelin. Notably, more than 58 percent of consumers aged 18 to 24 subscribe to this opinion.[35]

Older Gen Y consumers show greater affinity for PFM tools that are integrated into online banking. Among those aged 25 to 34, 37 percent said they would use an integrated PFM, compared with 29 percent for all consumers.[36] Large financial institutions and third-party sites already offer this ability. Community financial institutions need to offer similar services in order to capture this growing population of account holders. Consumers want to see all accounts and transactions in one place, and they want the information in real-time, according to Javelin. Gen Y consumers are a key demographic here, as they are still developing money-management habits. PFM tools should be simple and appealing in order to attract usage by younger consumers.[37]

5. Incorporate Mobile Banking

With younger consumers adopting smart phones so rapidly, community financial institutions must be able to offer mobile banking services to capture more of the Gen Y market. These consumers are often using these devices instead of traditional land lines for their residential voice communications needs—and they are also increasingly using them as their primary way to connect to the Internet.[38]

Mobile account transfers via mobile devices are poised to increase dramatically, with Gen Y consumers leading the adoption of this functionality. In addition, mobile payments are also considered an important emerging technology that will soon allow mobile phones to be used ubiquitously as payment devices. Community financial institutions are advised to develop a comprehensive mobile strategy that will enable them to successfully use these new and future technologies to capture and retain Gen Y customers.

Even if a community financial institution is still in the beginning stages of developing a mobile banking platform, it should start collecting mobile numbers as customers open accounts. This strategy will allow for future targeted mobile marketing campaigns. About three in 10 consumers respond to mobile marketing, compared to almost four in 10 of Gen Y.[39]

6. Use Web 2.0 as a Marketing Tool

Almost one in five Gen Y customers go beyond using financial institution Web sites when researching financial products, turning to social networks to gather opinions of their peers about the services they plan to consume.[40]

Social media sites and applications can also tap into what isn't working and what needs fixing in the banks' operations. Allowing customers to post and edit FAQs will actually involve customers in a direct effort to fix problems.[41] Large banks have been adding teams of staff to respond to Twitter users who have questions. The format is like chat, with an expectation of real time.[42] Yet community institutions also need to be careful about setting expectations, industry veterans say. Rather than service, using social networks is more about conversation and education. That said, smaller institutions have been the most successful in using social media to connect with customers, according to Celent, a Boston-based research company. Furthermore, Facebook can be a useful tool for delivering multimedia content, including photos and videos to deliver the "we're a family" message that defectors from large banks are seeking. Community institutions can also use Facebook to conduct polls and contests.[43]

7. Keep Them Tuned In With Alerts

Gen Y uses e-mail and SMS alerts more than any other age group.[44] They use digital alerts with greater frequency than their older counterparts, especially when it comes to things like low balance and billing alerts.[45] Although many financial institutions are beginning to offer text alerts, many are still considered by young consumers as deficient in this area.[46] Bare-bones services are not enough to attract this segment. Your system should be able to handle one- and two-way messages via voice, SMS and e-mail, and should integrate with your core systems for real-time list generation and response capture. It also should integrate with your voice applications and include 24/7 monitoring and support.

8. Maintain Transparency

Community institutions rank high on trust among consumers of all ages. Nearly 90 percent of consumers with checking accounts at community financial institutions in May 2009 said they trusted their primary bank, up from 84 percent a year before, notes Mercatus Partners, a Boston-based consulting firm.[47] This perceived trustfulness of community financial institutions is an important asset in the pursuit of Gen Y customers. According to demographers, the members of Gen Y place a high value on transparency and authenticity, and are accustomed to using the Internet to validate information and verify claims. Accordingly, community financial institutions must maintain the trust of their younger customers by recognizing this important characteristic.

Newly enacted regulations regarding transparency will help: Under the Credit Card Accountability, Responsibility and Disclosure Act (Credit CARD Act), for example, statements must clearly show the number of months required to repay a credit card balance and the total cost if only minimum payments are made. They also must show the amount that must be paid to repay the balance over a period of 36 months.[48] While cumbersome, these new rules around transparency can help build on the trust Gen Y already has for financial institutions. Marketing materials should also adhere to this same philosophy of transparency and authenticity by sticking to verifiable claims and limiting hyperbole.

9. Offer Prepaid Card Solutions

Gen Y customers use prepaid cards much more than older consumers, with 28 percent using general purpose reloadable (GPR) prepaid cards—almost triple the percentage of older users of the product.[49] This type of prepaid card is network-branded (e.g., Visa, MasterCard) and can be used anywhere that credit/debit cards are accepted. Because many Gen Yers' finances may still be managed by a parent, reloadable cards allow for money to be shared without sending large amounts of cash: perfect for the Gen Y college student or traveler. It also serves as a useful steppingstone to a traditional deposit account.

Having a comprehensive solution for custom-branded prepaid cards that comes with administrative and cardholder support can give community financial institutions an edge in terms of product differentiation. Prepaid cards can help community financial institutions better satisfy the needs of current Gen Y customers and their parents, as well as provide an opportunity to serve unbanked and underbanked Gen Y consumers.

Conclusion: Get to the Party Early

Clearly, community financial institutions have a tremendous opportunity before them when it comes to marketing to the vast multitudes of Generation Y consumers (and eventually their successors, Generation Z). Yet to capture new Gen Yers and retain existing Gen Y customers, they need to have the right technology tools in place—especially when competing with multinational banks possessing immense advertising budgets and far-reaching geographic footprints. Community financial institutions must develop an understanding of the ways Gen Y consumers use technology to find and consume financial services, and they must quickly develop strategies to satisfy these preferences. Community financial institutions also need to reach out early to prospective customers, starting at adolescence—otherwise they could lose them to competitors who get there first. Many consumers between 18 to 30 years old already have established relationships with financial institutions, with 78 percent satisfied or very satisfied with their provider. Accordingly, marketing to parents is crucial to reaching the younger, not-yet-banked segment of Gen Y. Use educational tools and products appropriate to the targeted age of prospective school-age customers, Javelin recommends. This approach could include initiatives such as youth-run branches at high schools, blogs, interactive seminars, podcasts and virtual online banking activities.[50]

Using the appropriate technological tools—and marketing channels—can give community financial institutions the best chance to successfully capture and retain Gen Y customers. This group, like its elders, will soon (if not already) be seeking long-term banking solutions, including stickier offerings such as savings accounts, retirement funds, auto loans and mortgage loans.[51] And while many members of this generation have already established some type of relationship with a financial services provider, community institutions that invest in the right technologies now still have the opportunity to thrive and prosper in this demographic market for years to come.

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About the Author

As Senior Vice President for First Data, Greg Constantine plays an integral role in defining and building strategies to drive sales, increase revenues and improve operational efficiencies for the company. In addition, Greg works to maintain and enhance business relationships with existing clients and define strategies to aggressively drive adoption and enhance positioning. Greg has a Bachelor of Science in Marketing from the University of Alabama.

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