What Makes Gen Y Stick with a Bank?

Explore how banks can increase acquisition and foster retention of Gen Y customers

People matter, results count.

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Highlights

48% of global Gen Y customers indicated they are unsure if they will stay with their primary bank over the next six months.

Comprising 28% of the global population, Generation Y[1] is expected to be a major earning force over the next decade. For example, in the United States, earnings for this population are expected to exceed the earnings of Generation X within 10 years.

For banks, this is mixed news. While a large group of potential customers, Gen Y buyers are low on brand loyalty, have high expectations, and are more likely to switch banks if something better is offered elsewhere. According to responses from the 2014 Retail Banking Voice of the Customer Survey,[2] 48% of global Gen Y respondents indicated they are unsure if they will stay with their primary bank over the next six months. Fees/prices and quality of banking services were cited as the primary reasons to leave by a majority of regional respondents globally.

Because Gen Y utilizes technology to meet their expectations for banking products and services, banks are struggling to understand the business and technology needs for this group. Active on social media, Gen Y customers use this channel to regularly review products and services through discussions among friends, family and acquaintances. Moreover, as a group Gen Y customers are more technologically savvy than other age groups and differ in terms of behaviors and preferences.

As banks target technology-friendly Gen Y customers, they must focus on developing products and services in unique and innovative ways. Gen Y customers are more likely to be attracted by innovation, quality of service, and accessibility for various products and services such as payment systems and banking accounts. To that end, effectively utilizing mobile and social media tools are powerful ways to engage Gen Y.

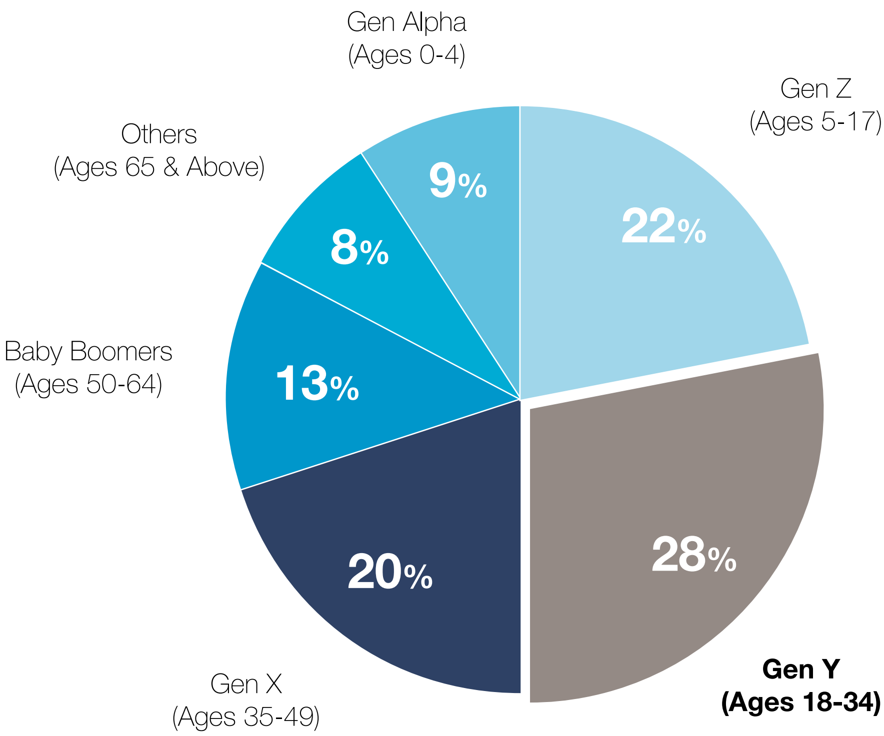
1 Gen Y is defined as those between the ages of 18 and 34 while Gen X is those between the ages of 35 and 49

2 2014 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services, results appear in the World Retail Banking Report 2014, Capgemini and Efma

Introduction

As shown below, at 28% Gen Y comprises a significant demographic segment compared to other age demographics.

Exhibit 1: Global Population by Age Group, 2012



Source: United Nations, Department of Economic and Social Affairs, http://esa.un.org/wpp/Excel-Data/population.htm, accessed September 25, 2013

Because Gen Y is likely to become the largest customer base for banks and financial services institutions in the near future, this segment represents a substantial growth opportunity for banks.

By 2025, Gen Y is expected to account for roughly 46% of the total personal income generated in the U.S.

In some countries, the Gen Y population is higher than the global average. For example, in South Africa and Malaysia, Gen Y accounts for 31% while in Brazil and India, Gen Y represents 29%. Because Gen Y is likely to become the largest customer base for banks and financial services institutions in the near future, this segment represents a substantial growth opportunity for banks. According to a report by Javelin Strategy & Research, by 2016 the combined income of Gen Y and Gen X will exceed that of other generations. By 2025,[3] Gen Y is expected to account for roughly 46% of the total personal income generated in the U.S.

In the current banking environment, customer retention is considered among the most important parameters. Since most Gen Y customers are in the initial phases of their careers-marrying, purchasing homes, and starting families-mortgage loans to Gen Y customers could be serviced for longer durations, laying a solid foundation for a 20- to 30-year relationship. The benefits of retaining the Gen Y customer include:

- **Increased Referrals.** Increasing the customer base through referrals is one of the most effective ways to increase growth. Gen Y customers are more active on social media than other groups and satisfied customers are likely to share their experiences and foster referrals.
- **Consistent Growth.** To achieve consistent growth, banks need to acquire and keep new Gen Y customers. Increased retention can lead to lower spending on new customer acquisition. Since customer acquisition costs are approximately six to seven times[4] more than customer retention costs, it is imperative for banks to focus on retention.
- **Greater Lifetime Value.** The majority of Gen Y customers are currently in the early phases of their careers and will be planning for major life-cycle events such as marriage and home ownership. Because Gen Y is in the planning stage of their lifecycles, they will be purchasing financial planning advice and big-ticket retail loans for education or asset acquisitions. These relationships have greater lifetime value compared to other age groups.

While Gen Y customers use the latest technology for many aspects of their daily lives and expect a high level of customer service, they are also low on brand loyalty. So how can a bank keep and retain them?

This paper discusses strategies, models, best practices and solutions to help banks attract Gen Y customers and increase their stickiness.[5]

3 Raising the Mobile Banking Bar to Reach "Underbanked," Javelin Strategy & Research, June 14, 2012, https://www.javelinstrategy.com/news/1340/222/Raising-the-Mobile-Banking-Bar-to-Reach-Underbanked-According-to-Javelin/d,pressRoomDetail, Accessed on June 19, 2013

4 Master the Art of Customer Loyalty, Victor Ho, Inc.com, March 14, 2013; http://www.inc.com/victor-ho/master-the-art-of-customer-loyalty.html

5 Stickiness refers to customer retention

Acquisition & Retention Strategies

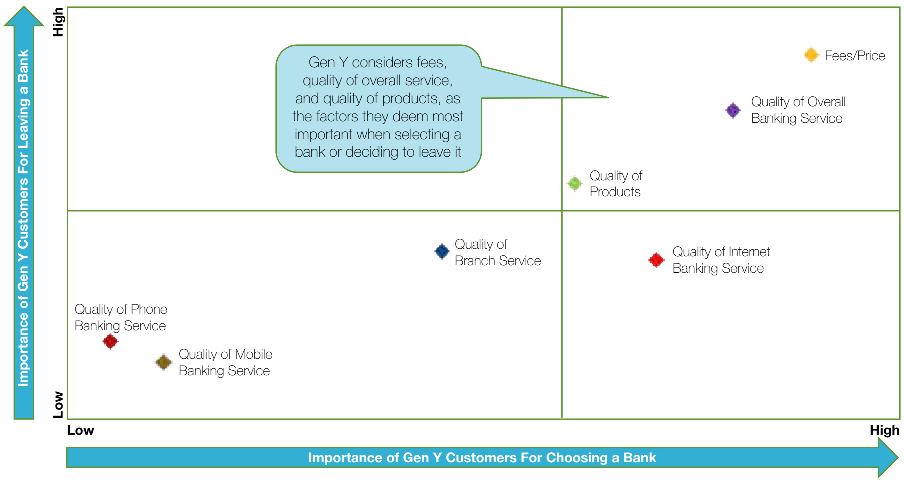
The research in this paper comes from the 2014 Retail Banking Voice of the Customer survey[6] which assessed, over a four-year period, global customer attitudes toward retail banking. The survey polled more than 17,000 retail banking customers in 32 countries. The results are key to understanding Gen Y customer expectations and subsequently developing acquisition and retention strategies for this group.

Globally, one of every two Gen Y customers is not sure he will remain with his primary bank over the next six months. More than 5% of Gen Y customers said they are likely to switch banks in the next six months versus 4% across all customer segments. Regionally, the likelihood that Gen Y customers will change their primary bank in the next six months is highest in Asia-Pacific, followed by the Middle East & Africa, Latin America, Central Europe, North America, and Western Europe:

- **55.7% of Gen Y customers from Asia-Pacific are not sure they will remain with their primary bank in the next six months** indicating only 44.3% of Gen Y customers in this region are unlikely to leave.
- **41.3% of Gen Y customers from Western Europe are not sure they will remain with their primary bank in the next six months** giving this region the highest number of Gen Y customers (58.7%) who are unlikely to leave.

Gen Y customers in emerging markets such as Asia-Pacific, the Middle East & Africa, and Latin America reported they are least confident they will remain with their current primary bank over the next six months while Western European, North American, and Central European Gen Y customers are more confident they will stay put.

Exhibit 2: Factors That Influence Why Gen Y Selects or Leaves a Bank



Source: Capgemini Financial Services Analysis 2014, 2014 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

6 2014 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services, results appear in the World Retail Banking Report 2014, Capgemini and Efma

Factors that Attract and Keep Gen Y Customers

The 2014 Retail Banking Voice of the Customer survey indicates that fees/price, quality of overall bank service, and quality of products are crucial for Gen Y customers. As shown in the following exhibit, these are important factors that determine how Gen Y customers will select and/or leave their bank. Banks looking to increase acquisition and customer retention of Gen Y customers must focus efforts to improve the factors in the top right quadrant.

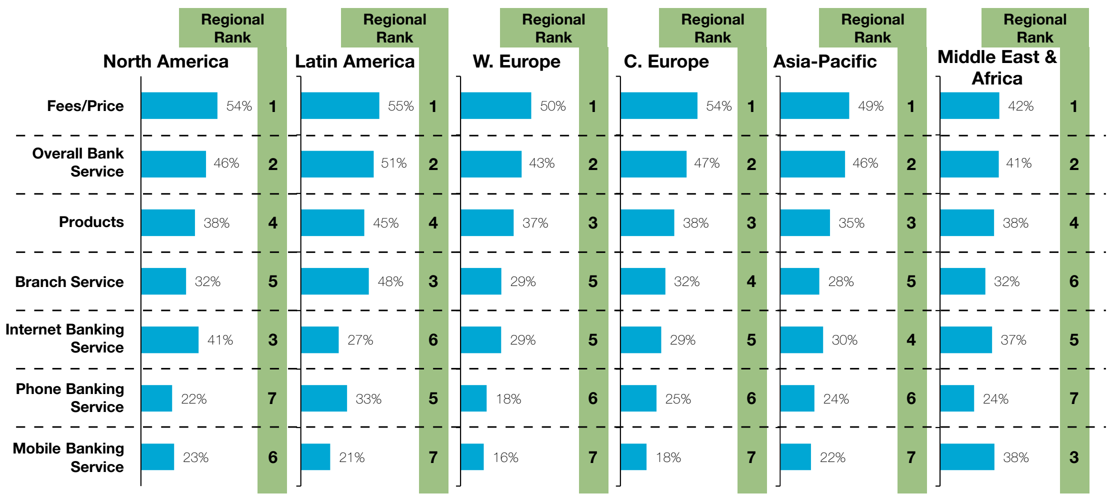
While Gen Y prefers a bank that offers lower fees/price, good quality of overall banking service, and good quality of Internet banking service, the most important factor they consider when deciding to leave a bank is fees.

Among banks, the mobile channel is currently perceived as less important than traditional channels, however it is rapidly gaining importance among Gen Y compared to other channels-branch, Internet, ATM, and phone. The importance given to these other channels has decreased substantially over time. Banks must continue to develop their mobile capabilities to maintain their appeal to this population.

Factors That Cause Gen Y to Leave Their Banks

Across all regions, Gen Y customers reported that the two most important reasons to stay with their bank or switch depend on fees/prices and overall banking service. Clearly, addressing these areas can help banks increase retention rates.

Exhibit 3: Factors Influencing Why Gen Y Customers Leave Their Banks (by Region, 2013)

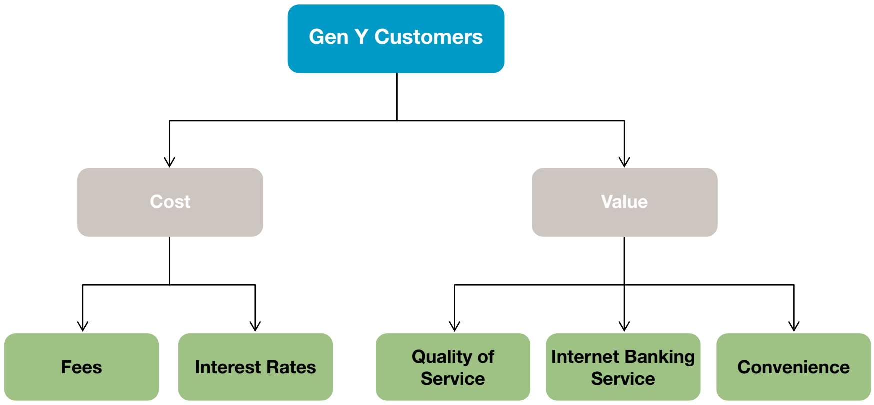


Source: Capgemini Financial Services Analysis 2014, 2014 Retail Banking Voice of the Customer Survey, Capgemini Global Financial Services

Ways to Nurture Gen Y Loyalty

The 2014 Retail Banking Voice of the Customer survey shows cost and value are important to Gen Y customers. Fees, interest rates, quality of service, internet banking service, and convenience are the top five factors Gen Y considers when deciding to stay with or leave a bank.

Exhibit 4: Key Ways to Increase Gen Y Customers Stickiness



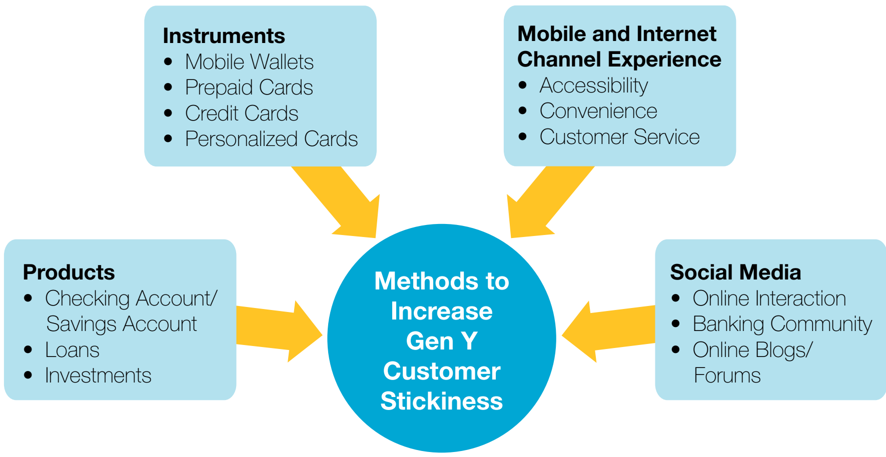
The following exhibit outlines the preferences and tendencies of Gen Y customers in the areas of costs and value.

Exhibit 5: Gen Y Requirements & Demands

Fees	Interest Rates	Quality of Overall Service	Quality of Internet Banking Service	Convenience
• Will choose banks that charge lower fees and are more interested in products and services that offer low fees and charges • Prefer banks that offer student accounts, no maintenance fees, and loans with lower commissions and fees	• Tend to shop around for the best price, and are willing to switch banks to obtain higher rates on savings accounts • Seek products, such as checking and savings accounts, that offer special interest rates	• Keenly aware of a bank's quality of service and will select a bank that delivers the greatest value and benefit to them • Prefer banks that have a transparent feedback system that will act on customer suggestions and complaints	• Seek added convenience in terms of services, not only through bank branches, but also online and through mobile channels • Prefer banks that provide mobile and online capabilities because of high reliance on smartphones	• Seek easy access to money transfers, product information, and problem resolution across channels on their timeframe versus a bank's promotional timeframe • Prefer banks whose processes are more streamlined and offer a high level of convenience

Exhibit 6: Key Ways to Increase Gen Y Customer Stickiness

To foster an ongoing mutually valuable relationship with Gen Y customers, banks need to focus on four key areas: instruments; products; mobile and internet channel experience; and social media.



Products

Banks can best serve Gen Y customers by adopting a 360° perspective of products and services and mapping them to Gen Y needs. Tuition, credit card, auto, and home loans are among the debt products likely to attract Gen Y customers. Banks should introduce Gen Y-specific checking and savings accounts which offer competitive interest rates and a high level of online and mobile banking convenience. One such product that is likely to attract Gen Y might be an online/ competitive interest savings account.

Because Gen Y customers are in the early phases of their careers and life planning cycles, they are likely to be interested in long-term investments that offer competitive returns. Banks should provide attractive long-term savings, pension, and securities and insurance products and services to meet this need. This may encourage Gen Y customers to stay with a bank over the long term. Banks should also introduce products that help build credit and manage debt connected to student and home loans for Gen Y customers.

Instruments

To help nurture a long-lasting relationship with Gen Y customers, banks should bundle payment instruments because bundled payments offer a high level of convenience. Gen Y customers' journey and consumption patterns are very different from other customers and banks should try to address them. Technologically savvy Gen Y customers have unique preferences in the way they prefer to make payments.

Form factor plays a critical role in the context of a Gen Y customer. New form factors, such as NFC-enabled smartphones, are significantly impacting the way payments are made. The emerging digital wallet payment system enables customers to access payment systems remotely anytime and anywhere, increasing convenience.

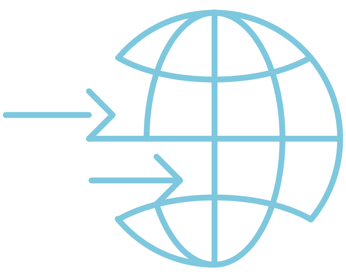
Non-banking financial companies are offering convenience with the use of the latest technology and innovations. Banks should try to adopt best practices from services, such as PayPal, Amazon Payments, and Google Wallet, to provide innovative and convenience, as well as increase brand value. According to a report published by Allied Market Research,[7] the mobile wallet market is expected to grow at a CAGR of 127.5%, through 2020 to reach $5.25 billion mostly due to smartphone penetration growth and increased security.

Mobile and Internet Channel Experience

Banks should pay close attention to user experience on mobile and Internet channels. The major drivers affecting the Gen Y user experience on mobile and Internet channels include accessibility, convenience, and customer service—three drivers that can ultimately lead to a more positive user experience.

Because Gen Y customers seek anytime access to banking services, they are among the most likely segments to use the Internet for online and mobile banking. This technology allows them to check account balances, make purchases, and conduct payment transactions on their mobile devices or the Internet. Leading banks in India, such as ICICI Bank, HDFC Bank, and Axis Bank offer various services on social media/Internet, which include product details, a stop-payment option, check book request, and exclusive offers.[8]

Gen Y customers are always connected to the world via their smartphones. Alior Bank, in an effort to stay connected with their customers 24/7,[9] launched Alior Sync, Poland's first digital bank. It features virtual branches, mobile apps, personal finance management tools, and Facebook payments.



Because Gen Y customers are increasingly adopting smartphones and Internet banking, banks should focus on enhancing their online and mobile channels. For example, the beginning of a transaction might be through one channel, part of purchase processing on another channel, and completion through yet another channel. Mobile and Internet channels are high on Gen Y's priority list, so it is imperative that banks deliver advanced solutions.

Social Media

Over 89% of respondents to the 2014 Retail Banking Voice of the Customer survey said they have a social media account. At least 10% of them across the world use social media once a week or more to interact with their bank.

7 Global Mobile Wallet Market is Expected to Reach $5,250 Billion by 2020, Allied Market Research press release, November 26, 2013, http://www.alliedmarketresearch.com/press-release/global-mobile-wallet-market-is-expectedto-reach-5250-billion-by-2020.html

8 Banks use social media to woo youth, G. Naga Sridhar and N. S. Vageesh, thehindubusinessline.com, August 3, 2013, http://www.thehindubusinessline.com/industry-and-economy/banking/banks-use-social-media-to-woo-youth/article4989026.ece

9 Virtual branches and Facebook payments: Poland gets new digital bank, FinExtra.com, June 18, 2012, http://www.finextra.com/news/fullstory.aspx?newsitemid=23816

In the past decade, billions of people across the globe have become active users of social media such as Facebook, Twitter, Flickr, LinkedIn, Google Plus, or Pinterest. Facebook has more than 1.28 billion active monthly users and an average of over 800 million people access the site daily.[10] Innovative banks such as DenizBank of Turkey and Commonwealth Bank of Australia have introduced social banking on a Facebook platform to allow customers to pay utility bills, check account balances, and transfer money to Facebook friends.

To improve brand awareness and increase customer retention, banks need to embrace social media platforms to engage Gen Y customers who are more likely to trust experiences posted on social media by other customers and use social networks and platforms to voice their opinions. Before making a purchase, these customers are more apt to conduct extensive research on social media and the Internet, collecting expert opinions and feedback from friends and relatives.

Banks should be active on social media platforms as they afford a critical opportunity to connect with Gen Y customers and regularly interact with them. TD Bank is available to service customer needs on Twitter seven days a week from 6 a.m.-11 p.m. (EST). This lets the bank to be more accessible, helpful, and responsive so its customers, including Gen Y, need not wait for bank branches to open to get answers.[11] Similarly, Chase Bank answers customer queries via Twitter in an effort to ensure their customers receive the best possible solution to their issues.[12]

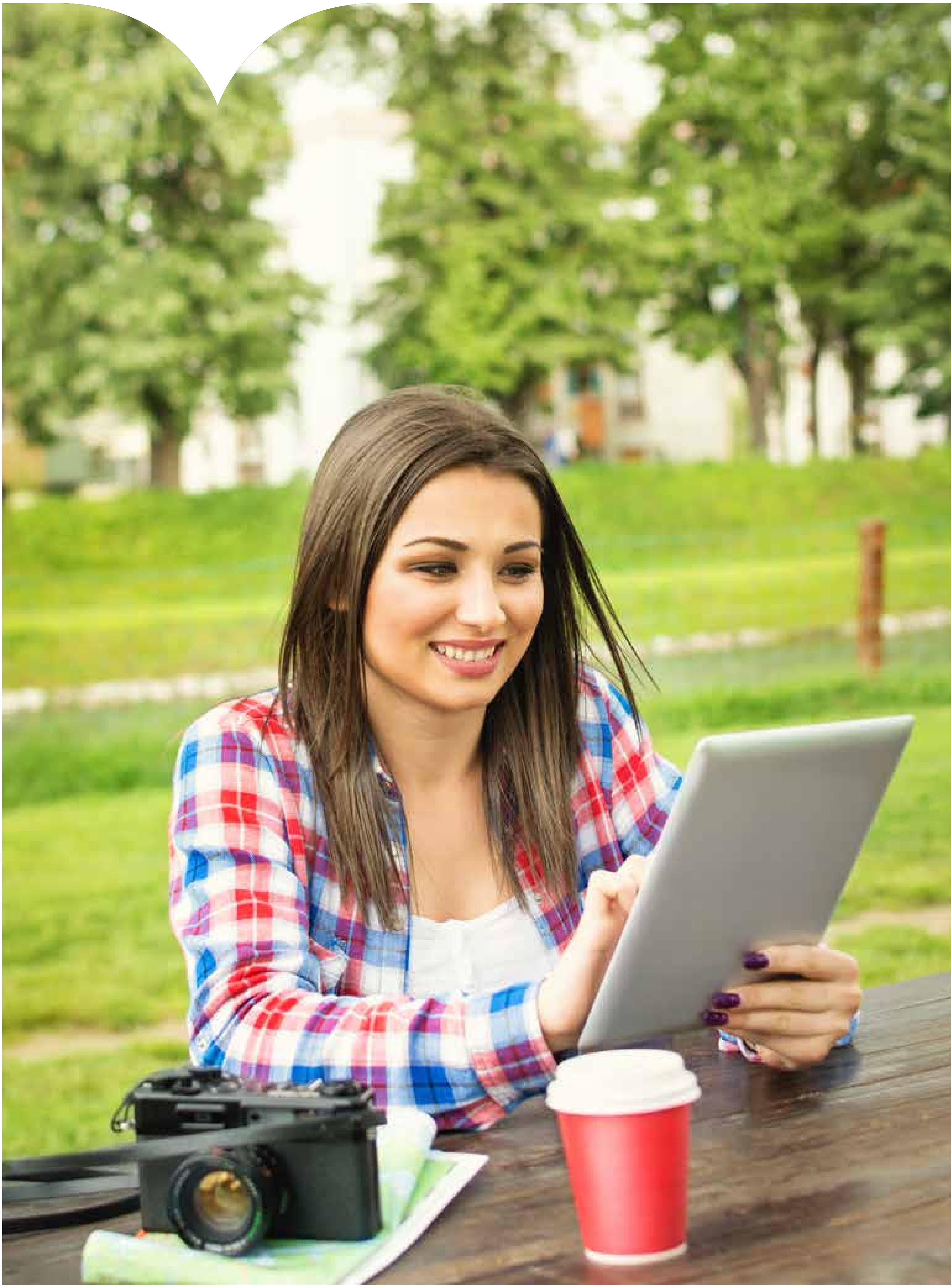
The exhibit below shows some ideas for activities banks should consider pursuing through social media.

Exhibit 7: Social Media Activities for Banks

Online Community	Online Blogs/Forums	Online Interaction
• Gen Y customers can share experiences and issues through a common community created specifically for that purpose • Banks should develop a friendly and effective model (via websites, forums, etc.) to engage customers and seek feedback	• In an effort to manage debt and build wealth, Gen Y customers prefer banks that can provide them with financial advice • Banks can use social media tools such as blogs to publish articles outlining how Gen Y customers can manage their finances with the latest financial products and tools	• Banks can utilize online platforms to serve customer needs by providing clarifications to their questions and disburse information on the latest products and services • Banks can utilize online tools such as Click to Call and Click to Chat, along with social media, to help fortify product sales

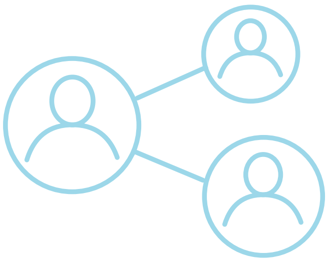
Social media provides an ideal opportunity to gauge the pulse of customers, enabling banks to serve them more effectively.

10 Facebook Newsroom, company Info, accessed May 8, 2014, http://newsroom.fb.com/company-info/
11 4 Ways Banks Can Connect with Gen-Y on Social Media, Salesforce.com Marketing Cloud blog, Aug 9, 2012, http://www.cmo.com/content/cmo-
12 https://www.chase.com/resources/personal-banking-contact



Case Study: A Gen Y-Exclusive Bank

OCBC of Singapore has created a Gen Y-exclusive bank with a new brand named FRANK[13] which offers a wide range of services for customers over the age of 16 and attracts them with exclusivity. In an effort to understand the behavior and banking needs of young people, FRANK bank branches were created after an extensive study of more than 1,000 young people and is based on five strategic core values: honesty, sincerity, reliability, smart and stylish.[14]



The bank has introduced a retail store concept which is modeled after the shopping experiences Gen Y customers are familiar with. This marks a departure from traditional banking, where customers browse, touch, and understand the bank products, and discuss their banking needs with bank representatives. FRANK offers an online banking website that is simple to use and includes details of products and promotions. It is active on social media websites such as Facebook, engages Gen Y with information on their products, and encourages queries on social media platforms.

FRANK offers more than 120 debit card designs which range in price from 10 to 20 Singapore dollars. The bank does not charge for a FRANK account and has no minimum balance requirement for customers younger than 26. It offers debit and credit cards with privileges and higher group discounts at popular online stores. FRANK also offers promotions to their customers for referrals and online purchases, and provides information via their website about various online deals available to customers.

13 5 Signs Financial Innovation is Better in Asia, Philip Ryan, v, November 25, 2013, http://www.bankinnovation.net/2013/11/5-signs-financial-innovation-is-better-in-asia/

14 Meet FRANK, Maybe The Coolest Bank Gen-Y Has Ever Seen, thefinancialbrand.com, May 31, 2011, http://thefinancialbrand.com/18642/ocbc-frank-gen-y-banking-brand/

Moving Forward with Gen Y

Because Gen Y is expected to be a major earning force over the coming decade, banks must develop a dedicated strategy to understand and meet the requirements of this important customer segment. Timely investments need to be made with regard to creating new account packages, providing a seamless multichannel experience, ensuring excellent customer service, offering relationship-based pricing and ensuring that a dedicated engagement plan is in place.

Exhibit 8: Moving Forward

Bank Strategy				
Account Packages	**Seamless Multichannel Experience**	**Relationship Based Pricing**	**Customer Service**	**Dedicated Engagement Plan**
• Banks should introduce account packages that are suitable for Gen Y customers. These would include checking accounts, savings accounts, specially designed debit cards, overdrafts, student loans, home loans and other financial planning products	• Banks should strive to provide a seamless multichannel experience for their customers • Gen Y customers are quick to embrace technology, which means banks need to keep up with technological changes in tadem with Gen Y	• Banks should introduce relationship-based pricing strategies to encourage long-term relationships with the Gen Y segment • Banks should reduce product silos and integrate IT systems for a holistic view of customer relationships and lifetime income	• To increase retention as well as referrals, banks need to focus on maintaining the level of good customer service Gen Y expects • To create a long-lasting and sustainable relationship, banks need to develop a deeper understanding of their Gen Y customers and build a more customer-centric bank, which delivers a positive customer experience	• Banks need to effectively use internet and social media tools to develop a dedicated engagement plan for Gen Y customers

Source: Capgemini Financial Services Analysis 2014

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