Introduction

With approximately 83 million members, the Millennial generation is the largest generation in the history of the United States. Born between roughly 1980 and 2000, Millennials are already responsible for approximately $1.3 trillion in direct annual spending. Some estimate that they will reach an annual net income of $8 trillion by 2025 as they enter their prime earning years and begin to inherit wealth from their Baby Boomer parents. This makes them an emerging economic force to be reckoned with.

Recognizing the opportunity this generation presents to financial institutions, we published our first in-depth study on Millennials and financial services, *The Millennial Shift*, in April 2014. This report found that established financial institutions were struggling to connect with Generation Y. Millennials' skepticism toward the industry, their difficult financial circumstances, and their high expectations around pricing and technology made them a clear challenge to serve, but a group that firms could not ignore given their sheer size and future economic muscle.

Since publishing *The Millennial Shift*, many financial services firms have begun to change aspects of their marketing, products and service models to break through to this generation. We have been tracking these changes carefully, and this study shares the results of our ongoing research. *Millennials Revisited: Financial Services and the Digital Generation* provides a detailed view of the current industry landscape organized into the following sections:

- **Key Findings** – This section offers a high-level review of the major findings from our research.
- **Industry Leaders** – In this section, we highlight the top firm or firms in each industry sector and the best practices that set them apart from peers when it comes to serving the Generation Y market.
- **Top Recommendations** – Here, we offer recommendations to help financial institutions better target and serve Millennials.
- **Understanding the Millennials** – This section analyzes the demographic, financial and technological factors that define the Millennial generation and their implications for the financial services industry.
- **Industry Reviews** – Here, we address each specific financial services industry sector that Corporate Insight tracks, exploring the issues firms face vis-à-vis the Millennial market, and offering actionable recommendations and best practices. These reviews are broken down into the following sectors:
  - Banks and Card Issuers
  - Brokerages and Investment Firms
  - Life and Property & Casualty Insurers
  - Retirement Plan Providers

To conduct the research for *Millennials Revisited*, we analyzed the results of three proprietary consumer surveys Corporate Insight fielded between November 2015 and September 2016 that focused on bank customers, retail investors and defined contribution (DC) plan participants. The objective was to quantify how Millennials differ from other generations in terms of their financial behaviors, preferences, attitudes and circumstances. We also leveraged insights from our ongoing industry tracking and interviews with subject matter experts in the financial services, marketing and technology fields with specific knowledge of Millennials. Additionally, we consulted numerous third-party research sources and reviewed the digital platforms of the industry's major financial institutions and start-ups. This report synthesizes these sources and is designed to help financial services marketers, product managers and strategists to better understand and profitably serve Millennials.

Challenges that Millennials Pose to Financial Services Firms

Below, we highlight some of the key challenges that Millennials pose to financial services firms.

- **Millennials face many financial challenges** – Low economic growth, a weak labor market and high personal debt have made it hard for Millennials to settle into adulthood and work toward securing their financial future. College debt in particular is a major burden, one that's prevented most young adults from saving enough now for retirement. Conditions could improve in the long run, if the economy recovers and Millennials begin to inherit wealth from their parents, but the near-term forecast is cloudy. As a result, Millennials tend to be very cost-conscious. They are accustomed to using the internet to find the best price on goods and services; they will apply the same approach to shopping for financial products.

- **Generation Y's skepticism toward the financial services industry is high** – Millennials are skeptical of established institutions, and in particular large financial services firms. They blame the big banks and Wall Street for the financial crisis and don't believe these firms have their customers' best interests at heart. As it is, they're unsure of whether these institutions provide the kinds of products and services they need. Millennials are particularly averse to hidden fees and hard-to-understand pricing; they put a high premium on transparency. This makes them more open to banking and investing start-ups like Square, Betterment, Robinhood, Wealthfront and others that publicly tout their fees as better than what the established industry players provide.

- **The Millennial generation is more diverse than past generations, which will require the industry to make some adjustments –** Hispanics account for about a quarter of the Millennial population ages 18 to 35, a larger percentage than in any previous generation. While most Spanish-speaking individuals are the children or grandchildren of immigrants rather than immigrants themselves, they still show an affinity for their ethnic culture and Spanish language. Separately, females are graduating from college at a substantially higher rate than males. They are increasingly becoming the household breadwinners. Financial institutions must adapt their marketing communication and service organizations to reflect these changes. In particular, the investment industry has a dearth of both young and female financial advisors and most banks lack robust Spanish language services over the web and mobile channels.

- **Millennials are "Digital Natives" with high technological expectations and a preference for mobile –** More than any other generation, Millennials believe their defining characteristic is their use of technology. They have high expectations for services like online investing and mobile banking and low tolerance for an inconsistent experience across channels. Financial services firms will need to deliver an excellent mobile experience if they want to compete for this "Mobile-First" generation. Other forms of technology like video chat via an ATM, push notifications/video chat through a mobile device and accident claim submission via video are all a logical fit for this audience and tactics that leading firms are finally beginning to embrace.

- **Generation Y is very risk averse and knows it needs financial education** – Millennials who have money tend to be very conservative with it, keeping most of their liquid assets in cash, by some estimates. This risk aversion is self-defeating and something the financial services industry needs to overcome. Financial education is one means of addressing this. Our surveys show that the demand exists for this content, but that firms continue to rely too much on static articles rather than engaging, video-based lessons and quizzes. Planning tools also matter to Millennials, but most financial institutions have failed to innovate here in recent years.

- **Millennials want guidance but they're skeptical of the cost; this benefits hybrid brokerage firms and digital advice players** – Millennials value an expert's opinion and understand they have much to learn when it comes to personal finance and investing, in particular. They also lack confidence in their own investing decisions. This translates into an interest in guidance and planning services. A new generation of digital advice startups has emerged to fill this need, which has inspired established firms to introduce their own digital advice offerings. Here, hybrid brokerage firms like Charles Schwab and Fidelity are best positioned to succeed by offering easy access to guidance, low-cost digital advice and strong web and mobile capabilities, backed by respected brand names.

- **Generation Y doesn't understand the true cost and value of insurance** – For the insurance industry, the Millennials' extended adolescence poses many challenges. Delayed homeownership means lost home insurance premiums, which aren't being replaced by renter's insurance policies. Millennials are also waiting longer to start families, which means they are buying life insurance later in life, if they're buying it at all. On the latter point, Millennials significantly overestimate the cost of life insurance, especially if they were to secure a policy early in adulthood. Clearly, the insurance industry must strive to educate young consumers about the security that insurance can provide and the true cost of these products, which is lower than Millennials think.

- **Hundreds of new start-ups challenge traditional ideas of financial services** – In the wake of the financial crisis, venture capital funding has flowed to hundreds of start-ups seeking to challenge traditional models in the banking, payments, investing, financial advice and retirement plan businesses. These firms often deliver services at an exceptionally low cost and via platforms that are more Millennial-friendly than what traditional institutions provide. They are forcing established firms to invest in better customer-facing technology and cut price to defend their market share.

This report addresses these and other challenges and offers actionable recommendations and best practices to tackle them.