Generation Y:
Why They're Worth a Second Look

By Stephen Nikitas, Senior Strategist, Harland Clarke

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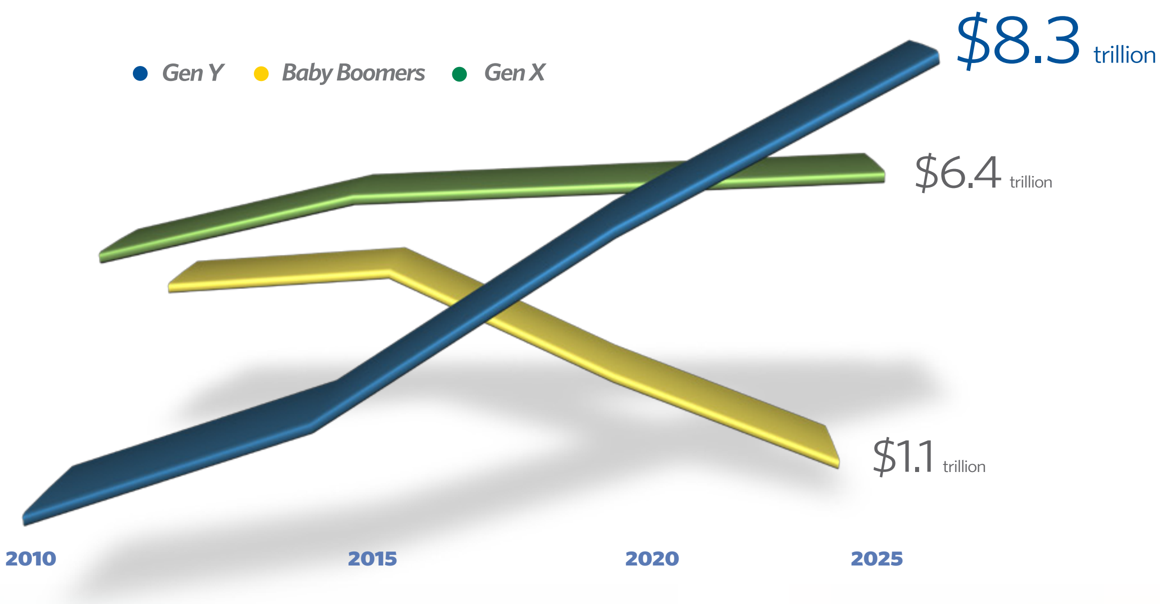
With an unemployment rate of more than 13 percent[1] and an average salary of $39,700[2], financial institutions might be inclined to dismiss Gen Y, the demographic group also known as "Millennials." They may be currently struggling, but Gen Y is still very optimistic about their financial future. Nearly 90% of those 18-34 believe they have enough money now or expect that they will in the future.[3] You should be optimistic too.

According to Javelin Strategy and Research, in just two years, by 2015, Gen Y income will exceed that of Baby Boomers. By 2020, their income is projected to exceed that of both Baby Boomers and Gen X.[4] That's just seven years away.

By 2025, Gen Y's combined income is expected to account for 46% of the nation's income.[5] Gen Y consumer spending is expected to grow to $1.4 trillion annually and represent 30 percent of total retail sales by 2020.[6] So, while Gen Y might not have assets or a lot of spending power today, they will. And unless you go after this crowd now and get them firmly entrenched, you'll miss a huge opportunity.

In just seven years, Gen Y income is projected to exceed that of Baby Boomers and Gen X ***combined.***

Income by Demographic Group (In Trillions)



[1] U.S. Labor Department, *The Employment Situation Summary,* August 2013
[2] www.payscale.com/gen-y-on-the-job
[3] Pew Research Center, *Young, Underemployed and Optimistic,* February 2012
[4] Javelin Strategy and Research, *How to Engage and Service the New Mobile Generation,* 2011
[5] Javelin Strategy and Research, *A Tale of Two Gen Ys: On the Road to Long-Term Banking Profitability, 2013*
[6] Accenture, *Who are the Millennial Shoppers? And What do They Really Want?,* June 2013

Tech-savvy

Yes, But Gen Y Prefers Branches for Account Opening

Gen Y doesn't write a lot of checks, but they still need tools to manage their money. You might be very surprised that, while they embrace online and mobile banking, Gen Y is more likely to open accounts in a branch. Only thirty percent of consumers under 30 said they expect to open their checking account at a bank or credit union website. Of the 30-39 age group, only 41 percent said they expected to open their accounts online. Furthermore, 58 percent of those under 30 said they wouldn't even consider opening an account at a bank that didn't have a branch nearby! [7]

What this means is that you should actively target young consumers in and moving to your neighborhood to drive them into your branches. At this early stage in their financial lives, they are looking for information and tools to help them effectively manage their money. In addition to checks and deposit slips, they will welcome a few new account basics like:

- Instant issue debit cards and ATMs for easy payments and fast access to their cash
- Interactive voice response and online account management tools
- Educational information on money management, investing, insurance and other services they might need

Debit cards and ATM machines make it easy for Gen Y to spend and, of course, increased card usage generates more interchange revenue for your institution.

Similar to the "Silent Generation," Gen Y has experienced firsthand the pitfalls of a bad economy. Though they dream of better days ahead, they are learning to live with less in the meantime. Aside from student loans, Gen Y typically doesn't like to borrow. So, debit cards enable this highly debt-averse group to control spending.

Perhaps the desire to stretch their dollars and avoid debt fuels Gen Y's love for deals. They are coupon clippers and thrift store shoppers. If your Gen Y account holders won't commit to a debit card, you might offer prepaid cards as an entry point to a relationship with your institution. One in six Gen Y customers choose prepaid cards as their preferred banking instruments.[8] Fifty-three percent of Gen Y consumers say rewards would encourage their adoption and use of prepaid cards.[9]

A prepaid card — with your name on it of course — helps Gen Y to manage their expenditures while building credit histories. Offer to reward them for using your prepaid or debit card, and your Gen Y prospects might bite. Remember, Gen Y consumers are seeking assistance in managing their money, so giving them services that are convenient and meet their short-term needs is likely to be appreciated.

***Fifty-three percent** of Gen Y consumers say rewards would encourage their adoption and use of prepaid cards.*

[7] Novarica, *Bank Shopper Snapshot Survey Volume 3,* 2013
[8,9] Javelin Strategy and Research, *Prepaid Cards and Products in 2012: Enabling Financial Access for Underbanked and Gen Y Consumers*

21% of all Gen Y households and 30% of higher income Gen Y households ***use mobile deposit***

Go With Gen Y to Next-Level Banking through Online Services

Once young account holders have come to the branch to open an account, use the technology they prefer to keep them connected – to their assets and your institution.

Online and mobile banking, as well as online bill pay are popular among Gen Y account holders, as is evident from recent Bain & Company research[10]:

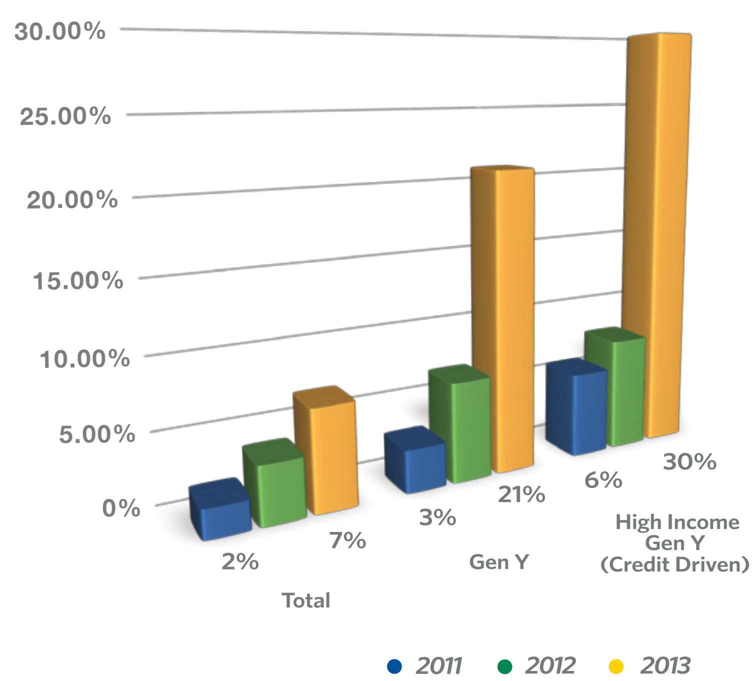
- People under age 35 comprise the largest group of mobile users, and people ages 25 to 35 are the heaviest mobile banking users.
- In the U.S., 32 percent of customers surveyed in 2012 used their smartphones or tablets for some type of banking interaction during the previous three months.
- Customers with a higher frequency of mobile transactions are more likely to recommend their bank than low-frequency users.

Remote deposit capture (RDC) is one mobile banking service that is experiencing explosive growth, particularly in the Gen Y segment. According to Raddon Financial Group, twenty-one percent of all Gen Y households and 30 percent of higher income (greater than $50,000 annually) Gen Y households use mobile deposit.[11]

In addition, customers who used mobile remote deposit increased their monthly number of deposits by two percent. With these current usage trends, even a nominal "per deposit" fee could generate a significant amount of monthly income for your institution.

Pushing digital channels isn't only a marketing must, it's also a must for the bottom line.

Mobile Deposit Capture



Source: Raddon Financial Group, National Consumer Research, Spring 2013

[10] Bain & Company, *Customer Loyalty in Retail Banking: Global Edition*, 2012
[11] Raddon Financial Group, *National Consumer Research, Spring 2013*

The ABCs of Engaging Gen Y

So, knowing how Gen Y prefers to engage with financial institutions, how do you make it work to your advantage? Some simple ABCs might work for this group.

Appeal. As with all marketing, successfully appealing to the values of the target audience is the way to go. In other words, your target audience needs to know WIIFM or "what's in it for me?"

We know that Gen Y values:

Attention. Inviting Gen Y to your branch where you educate them on financial basics, as well as products and services they need makes them feel welcomed and appreciated. After you have acquired a Gen Y account holder, it's important to stay in touch and promote services that are beneficial to him or her. A careful outreach program, via the right channel at the right time with the right message, is absolutely imperative.

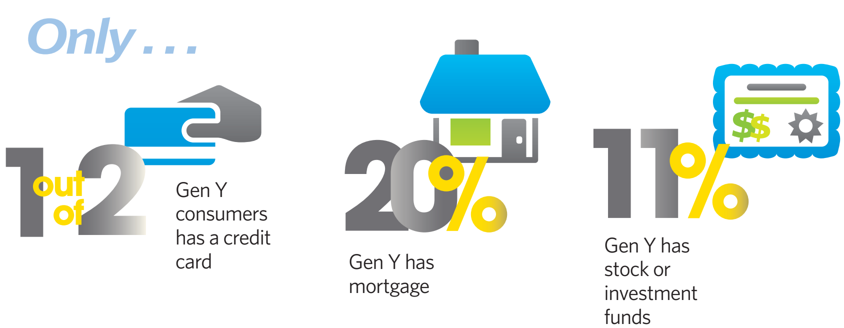
Convenience. Whether it's a convenient debit or prepaid card, shared ATM network, free or low-cost online bill pay, mobile check deposits or other conveniences your institution offers, you must effectively promote them to Gen Y. Again, they appreciate your looking out for their needs.

Technology. Gen Y is the most tech-savvy generation yet. They expect to be able to do what they need to do, when they want to do it, using the channel that's most convenient at the moment. Let them know that you recognize their high-tech needs by offering multiple ways to stay connected to their accounts and your institution.

Banking Habits. Your goal with Gen Y should be to create the right banking habits, where Gen Y account holders turn to you in whatever channel they prefer to meet their financial needs today, and then into the future.

According to Javelin, the door is open. Only 38 percent of Gen Y states that they are "very satisfied" with their primary financial institution, versus 45 percent for all consumers.[12]

Financial institutions have enormous opportunities with Gen Y. According to Javelin[13]:



Are these numbers so low because Gen Y doesn't need these products? Perhaps. But they will!

[12,13] Javelin Research and Strategy, *Gen Y: How to Engage and Service the New Mobile Generation*, 2012

Naturally, at this point in their financial lives, Gen Y might be more driven by channel than by needs. But their needs will grow. And if you don't have them on board, cross-selling credit cards, mortgages and other loans, and financial management products won't happen.

So, the key is to focus on promoting the right types of services in the early years of the Gen Y relationship. Online and mobile banking and bill pay present the best opportunities and also keep your costs low. Then, as Gen Y-ers mature into their huge financial potential, they are already in a relationship with your institution and ready to hear about the products and services you can offer them at the next life stage.

Communication. From a cycle perspective, the cadence of a post-acquisition welcome — outreach at 30-day, 60-day, 90-day and 365-day intervals — is on target for Gen Y. The key is how to do it.

Incorporating multiple channels is a must: digital, email, texting, phone and direct mail are all complementary. Epsilon noted, "As consumer channel preference continues to evolve, marketers need to integrate the various sources consumers turn to when seeking brand and product information. Two to three channels are the most common way to communicate and build trust with a consumer."[14]

And even though Gen Y is a technology-centric crowd, more recent research from Epsilon tells us that direct mail is the most preferred channel for receipt of communications about financial services. According to Epsilon's 2013 Channel Preference Study, 38 percent of U.S. consumers agree that direct mail is the preferred channel to receive financial services information. (Note that this number is up by two percent since Epsilon's 2011 Channel Preference Study.)

Epsilon further states that, "Interestingly, U.S. consumers report an emotional boost from receiving direct mail, with 60 percent agreeing that they 'enjoy checking the mailbox for postal mail.'"

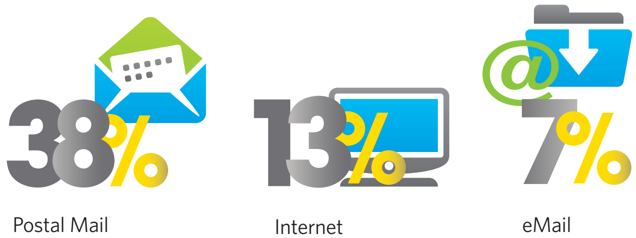
In fact, direct mail is a very strong communication channel for Gen Y with 92 percent of Gen Y consumers choosing this medium when selecting a store. They also find an average of 75 percent of their mail valuable. Another 73 percent say they have made a purchase using a coupon they received in the mail.[15]

***Two to three channels** are the most common way to communicate and build trust with a consumer.*

[14] Epsilon, *Consumer Channel Preference Study*, 2011
[15] Nielsen, *Most Millenials' Store Choices Influenced by Print Media*, 2011

Clearly, this group does read and respond to direct mail offers. So, you should definitely include direct mail in your media plan for Gen Y.

Stated Preference for Receiving Financial Services Information (U.S.)



Source: Epsilon, *Channel Preference for both the Mobile and Non-Mobile Consumer,* Epsilon, 2012

If you haven't considered Gen Y in your growth plan, now is the time to change your mind. This dynamic group has the potential to become the highest earning generation to-date. A few simple tips can earn you their business and their loyalty:

- Pay attention to Gen Y and share their optimism regarding their financial future.
- As they earn more, offer them products and services at every lifecycle that will help them achieve their financial goals.
- Allow their technology preferences to dictate the channels in which you will communicate and keep them connected to their assets.

Harland Clarke can help you successfully market to Gen Y. Our Marketing Services welcome and engage new Gen Y account holders through a series of targeted, data-driven multichannel communications. We also help reduce attrition and increase cross-sell opportunities, while effectively transitioning new accounts into satisfied, profitable and loyal relationships.

To learn more about our expertise with Gen Y, call **1.800.351.3843**, email us at **contactHC@harlandclarke.com** or visit **harlandclarke.com/MarketingServices.**

About the Author: Stephen Nikitas has more than 30 years of experience in strategic planning, marketing, public relations and executive speechwriting. He has been a senior executive at financial institutions in New York, California and Massachusetts, developing and implementing sales and marketing programs that resulted in significant growth rates in loans, deposits and accounts.

As a Senior Strategist at Harland Clarke, Stephen now provides consultative services to banks and credit unions, helping them to craft marketing and retail strategies and campaigns that take advantage of existing market and financial conditions in order to grow targeted portfolios.