

# ACQUIRING THE MILLENNIAL CUSTOMER

CAPCO

Information available on Millennials can be pretty confusing. There are a lot of different research studies with some conflicting results. Although, each study keeps highlighting an interesting conundrum for banks: how can they best serve millennials. Millennials are individuals born between 1980 and 2000, are the largest adult demographic in the U.S., and at present have \$1.4 trillion dollars in investable assets.<sup>1</sup>

## Why all the attention now

Millennials are entering their prime earning years, and their investable assets are expected to grow to \$11.3T by 2030, a staggering 15% compound annual growth rate.<sup>2</sup> Millennials will also overtake baby boomers in consumer spending by 2018. They are poised to become the driving force of the U.S. economy and some are ascending up the corporate ladder at a rapid pace. Over the next 30 years, millennials will inherit \$30 trillion dollars from their parents.<sup>3</sup> This drastically changes the relationship with millennials; Banks need to redefine their wealth management approach to focus on a new generation of investors.

## Build relationships now

A recent study highlighted that 66% of children receiving inheritance today would leave their parents' financial adviser.<sup>4</sup> Banks are focused on short-term return with only 20% actively targeting younger demographics. Companies seen as leaders in the digital wealth revolution, such as Vanguard, are not attracting new millennial investors through their robo-advisory platform. This may be in part due to the relatively high fees compared to other robo-advice platforms, or the fact that there is a \$50,000 investment minimum. Regardless, the proposition is not targeted at millennial investors.<sup>5</sup>

If banks do not figure out how to develop a strategy and proposition to cater to millennials, then they will miss out on the biggest wealth transfer in history.

1. <http://dupress.com/articles/us-generational-wealth-trends/>

2. <http://dupress.com/articles/us-generational-wealth-trends/>

3. <http://www.bankinvestmentconsultant.com/news/practice/limra-loma-gen-x-gen-y-retirement-2672706-1.html>

4. <http://www.fa-mag.com/news/almost-all-heirs-leave-parents-advisory-firm-18520.html>

5. <http://www.bloomberg.com/news/articles/2016-03-24/the-vanguard-cyborg-takeover>

## **Millennials have the same lifestyle and financial needs as previous generations – but they demand a different delivery experience**

While Generation X was the first generation to use technology starting in elementary school, millennials are the first truly, digitally-immersed generation. What millennials want from brands may not be radically different on the surface from their parents; great service, value for money and a trusted relationship. However, their expectations of how these things are delivered truly differ from previous generations. It is not news that millennials prefer to be communicated and serviced through digital and mobile channels. This may sound simple, however it can be a huge leap for banks and traditional wealth managers. Convincing banks that they need to re-think their wealth management strategy is difficult for some to conceive. It almost is easier to completely start over.

Based on the current servicing and fee-based models, not all millennials will become profitable customers. Banks need to look to the future and invest in digital experiences, supported by low-cost servicing models to attract and retain millennial customers and anticipate the need for more specialized services when required. Exponential, innovative thinking is required to bridge the gap.

### **Bridging the gap**

The recent fintech boom has given rise to start-ups that have re-defined wealth management for a new generation of investors. Companies such as SigFig, Wealthfront, Betterment and Stash have shown that low-cost, fully integrated digital wealth channels are a key part of servicing future customers. Although these new entrants have grabbed a lot of media attention, their impact on market penetration is relatively low, especially when their assets under management are compared to the traditional wealth managers.

A number of more traditional wealth managers have begun to realize that the digital revolution is not going away, and have started to explore options to engage the new generation of investors. However, no one company has managed to provide a holistic experience that focuses on what millennials really want from a wealth management service.

**So how can banks and traditional wealth managers acquire, serve and retain millennial investors?**

#### **1. PROVIDE VALUE**

Millennials are happy to pay for services that provide value for their money. One of the key hurdles facing banks is the perception that the services they provide are not worth the fees. There is also distrust among the millennial generation that banks are hiding additional fees in complex, legally worded terms and conditions, all of which reduce trust in the brand.

### 3 Acquiring the millennial customer

To remedy this distrust, banks must make it easier to explain the value they are providing in a simplified yet transparent manner. Fee transparency is particularly important with the new Department of Labor retirement fiduciary standard ruling which was announced in March 2016. At the same time, bombarding clients with a full list of all fees is not a positive client experience. Bundling services in an effective manner will address both transparency and experience.

#### 2. REDUCE BARRIERS TO ENTRY

Traditionally, younger investors with smaller investable assets have been ignored by most wealth managers as they are considered unprofitable. Minimum investment amounts and complex product offerings have led to millennial investors migrating to new market entrants who offer no investment minimums, combined with simple product offerings and education on how to invest.

Millennials have voices and they have multiple social media forums to amplify their frustration. No firm wants to be on the receiving end of a negative viral assault. From a millennial point of view, the answer to reducing barriers is analogous to dating. Millennials want to test the waters and they want to spend time in an experience that makes them feel knowledgeable, empowered, and heard. When they feel comfortable, any information shared or gathered from other sources should be used to move the relationship forward, such as seamless client on-boarding, simplified funds transfer, holistic planning, etc.

#### 3. DELIVER INNOVATION – A BEST-IN-CLASS DIGITAL USER EXPERIENCE

Having a digital presence is not enough. Ease-of-use, while using a trusted interface, is a differentiator. Activities should be tailored by value and designed for the customers with the evolving behavior and regulatory environment in mind.

What should banks consider? Digital trust. Customer life journey. Simplifying complexity while providing high-touch and tailored services. This is possible but requires the bank to consider the solutions without the burden of legacy. This is where the digital ecosystem is critical. Incorporating today's disjointed experiences into a holistic, seamless digital experience will help demonstrate value to millennials and help them save and invest to achieve their life goals.

## How capco can help

It is sometimes difficult to navigate the rapidly changing digital environment to meet the challenges facing your business. Capco is in a unique position to help you understand what is important to the success of your business and help you design and execute digital strategies that will attract millennials and delight your customers.

## **Our digital wealth offerings**

### **STRATEGY AND ASSESSMENT**

- Define the firm's business vision and transformation objectives
- Assess your digital maturity through our proprietary assessment model
- Design a fit-for-purpose target operating model leveraging location strategy and regulatory framework to enable your future strategy
- Assess your current state, technical architecture and capacity for change

### **CUSTOMER ACQUISITION**

- Analyze customer segments and define the persona
- Map customer journeys to identify key pain points and 'wow' moments
- Capture and analyze big data patterns to identify customers' key life indicators that will drive targeted experiences
- Recommend next-generation technology solutions and provide supporting business cases

### **TRANSFORMATION AND DELIVERY**

- End-to-end implementation of large scale and complex digital transformation initiatives within Wealth Management
- PMO and experienced change professionals who understand the key industry and business challenges
- Full stack design and development capabilities, including vendor and/or FIS and SunGard integration
- Future-state solution design and architecture
- Testing center of excellence, including SIT, QA and UAT.

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## AUTHORS

**Toby Henry**

tobias.henry@capco.com

**Nitesh Kadakia**

Nitesh.kadakia@capco.com

**Kapin Vora**

kapin.vora@capco.com

**Damon Gatison**

damon.gatison@capco.com

## ABOUT CAPCO

Capco, an FIS™ company, is a global business and technology consultancy dedicated solely to the financial services industry. Our professionals combine innovative thinking with our unrivalled first-hand industry knowledge to offer our clients consulting expertise, complex technology and package integration, and managed services to move their organizations forward. Through our collaborative and efficient approach, we help our clients successfully, innovate, increase revenue, manage risk and regulatory change, reduce costs and enhance control. We specialize in Banking & Payments, Capital Markets, Wealth & Asset Management and Technology Services. We serve our clients from offices in leading financial centers across North America, Europe, Asia Pacific and Africa.

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To learn more, contact us in the U.K. on +44 20 7426 1500, in Continental Europe on +49 69 97 60 9000, in North America on +1 212 284 8600, visit our website at CAPCO.COM, or follow us on Twitter @Capco.

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