CAPCO

MILLENNIALS ARE MAKING AN IMPACT ON IMPACT INVESTING

INTRODUCTION

Millennials, the generation born between 1981 and 1996, are frequently characterized for causing waves in society and differentiating themselves from older generations. With a population of 80 million millennials spanning across the United States, millennials are pathing a non-traditional route when it comes to investing, demonstrating their strong desire to incorporate social change into their personal and professional lives[1,2]. This demographic is a critical driver to the emergence of impact investing. Bolstered by their imminent transfer of wealth, firms and companies are paying attention.

What is impact investing? Impact investing is a subset of Socially Responsible Investments (SRI), a category of investments that strives to make positive environmental and social impacts. This asset class offers measurable social and/or environmental benefits for the investor while maintaining the potential for attractive returns. Specifically, impact investments prioritize the measurable societal and environmental returns over the financial returns[3]. A set of metrics known as the Impact Reporting and Investment Standards help measure the social, environmental, and financial performance of the investment[4].

The popularity of impact investments and online investment platforms is growing among millennials, and wealth management firms need to adapt to these changing investment behaviors.

#TRENDING: THE GROWING POPULARITY OF IMPACT INVESTMENTS

With millennials at the forefront, momentum is gaining for this beneficial investment approach, causing financial advisors, investment managers and corporations to notice. A 2017 Morgan Stanley study shows that millennials are twice as likely as any other generation of investors to put money into social or environmental investments[3]. More specifically, Fidelity reported that 77 percent of millennials made some form of impact investment in 2018, while baby boomers represented only 30 percent[1]. With about 80 million millennials in the US (20 million more people than the baby boomer generation)[2], the interest in social change and investing is making waves.

WHY ARE MILLENNIALS DEMANDING IMPACT INVESTING?

Arguably more than any other demographic, millennials are inclined to integrate their desire to give back and enact social change with their investment approach. According to a 2018 Forbes study, more than half of millennial investors see social responsibility as an important criterion when choosing investments and seek to be associated with brands and companies that support their values[5,6].

Today's social media platforms provide their users with immediate insight, knowledge, and engagement on global issues[7]. Impact investing fulfills millennials' tendency towards instant gratification and willingness to prioritize short-term action over long-term remediation[5]. As the first generation to adopt social media as their primary form of communication, millennials have a heightened awareness of these potential impact investment opportunities.

Shaped by the 2008 financial crisis and the recent COVID-19 economic shutdown, millennials demonstrate skepticism about the stability of the housing, job and financial markets. They tend to question the norm and are more motivated to investigate and research topics or issues independently. This mindset and the willingness to accept the higher risk or lower rewards in return for a social or environmental impact lead millennials to explore non-traditional investment opportunities[7].

INTERGENERATIONAL WEALTH TRANSFER

Impact investments have the potential for tremendous growth, and financial advisors are taking notice. Estimates suggest millennials are in line for $30 billion of intergenerational wealth transfer over the next 30 years[5]. As part of this wealth shift, there are expectations of continued growth in allocations to impact investments. Despite myths surrounding them, analysis shows that impact investments can deliver consistent, positive returns comparable to traditional investing, which focuses only on the financial data associated with the investment[8]. Traditional investments can provide diversity and non-correlation, which can be complementary as part of a broader portfolio.

Research has demonstrated that "what is good for the people and the environment is also good for business performance"[9]. The demand and popularity for these investment opportunities will increase with millennials' wealth. As the next generation of investors continues to grow impact investing, wealth managers and financial advisors will begin to realize that the new norm will be to increase social and financial returns[2].

CALL TO ACTION TO WEALTH AND ASSET MANAGERS

The growing popularity of impact investments provides the wealth and investment management industries insight into what this growing segment of investors values: social responsibility. To take advantage of this shift and capture millennials' attention and wallet share, financial advisors must arm themselves with granular knowledge of the benefits of these options and get out in front of the conversation. They must do this with not just with millennials, but with all clients, because impact investments are proving to not only be beneficial for the investor but also for the world.

I. MANAGERS NEED TO ADOPT AND INTEGRATE

To engage and ultimately capture millennial investors' wallet share, wealth and asset managers need to start the conversation about impact investing, demonstrate their understanding of its value, and debunk myths surrounding it. A Fidelity study found that 70 percent of impact investing conversations between an investor and financial advisor were introduced by the FA[1]. To keep this momentum, more wealth advisory firms need to heed the call and continue to raise awareness about impact investing and educate clients about aligning their values to invest responsibly. Financial advisors have a significant role in bringing awareness and understanding to impact investing in providing socially responsible investment options for investors and joining an increasing trend with an ample opportunity for rewards.

Learning and development for wealth advisory firms are critical in gaining expertise in impact investing. This understanding will be the key differentiator in earning the trust of millennial investors. With proficiency in impact investments, managers and advisors coming into the transfer of wealth will have a competitive advantage. Furthermore, there is a need for advanced, attainable knowledge and resources surrounding impact investments. Measuring the impact of the investment requires a lot of data and sources, and there is an opportunity for this type of information to be streamlined and adopted by managers, advisors, and other relevant parties[2]. With this also comes the creation of new products and platforms to identify and manage impact investments effectively. Overall, more knowledge and conversations need to be shared about impact investing.

II. DIGITAL FINTECH INNOVATION PROVIDES ACCESSIBILITY

Not surprisingly, a predisposition towards non-traditional investments is often accompanied by a preference for non-traditional investment platforms. New mobile investment apps change the investing landscape by offering investors the tools to easily access investments on their mobile-phones and reduce the need for broker or advisor phone calls or in-person meetings, catering to millennials and focusing on social impact preferences. These apps tend to have low or no fees and provide clarity and access to impact investment products, making them the preferred option for the younger, more tech-savvy generation[10].

Increasing sophistication in mobile investment platforms and the rise of impact investing is shifting how millennials want to work and invest. In 2018, almost 13,000 global apps had 'investing' in their descriptions. This figure increased from 8,900 in 2015, indicating that mobile investment apps' supply is increasing along with the demand. Similarly, the number of downloads of investing apps that advertised sustainable offerings doubled in 2018 reaching 24 million downloads[10]. Out of these apps, a couple of standout platforms lead the way in online, self-sufficient impact investing.

Open Invest and Stash are two online investing platforms founded in 2015. Open Invest offers customizable portfolios with sustainability themes, and 60 percent of its users are millennials. While Stash does not solely focus on impact investing, their sustainability-themed ETFs are proving to be growing in popularity. In 2019, 12 percent of its users were invested in social ETFs, which doubled from the six percent invested in 2016. Like Open Invest, the average Stash user is a millennial[10]. The higher fees and minimums, more cumbersome engagement, and general distrust of using the same channels millennials' parents did leave traditional wealth management firms at a crossroads. Traditional firms can either expand their offerings, broaden their capabilities, or see more nimble upstarts continue to take market share.

III. CAPCO'S OUTLOOK

Financial advisors and wealth managers need to expand their knowledge to understand impact investing's implications and benefits. Capco believes that a comprehensive business strategy focused on the end client is needed to bring traditional firms up to speed and compete against rapidly moving and agile mobile investment apps.

We see millennials' basic characteristics in their investment choices, but this impact investment trend can be adopted by investors of all generations. The future transfer of wealth and the penchant for social good for the millennial generation demonstrate the major growth opportunities impact investing has for the future. Impact investing has the potential to benefit the investor, wealth management, and society at large and extremely worthy causes.

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AUTHOR

Elizabeth Dunigan, Associate

ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

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