

## Catalysts for Change

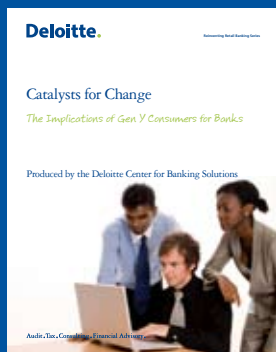
### *The Implications of Gen Y Consumers for Banks*

Produced by the Deloitte Center for Banking Solutions

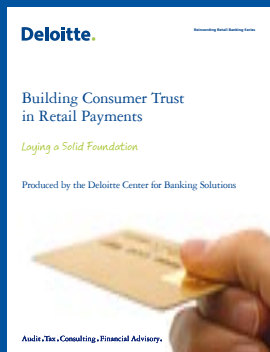


# Reinventing Retail Banking

## Generation Y



## Consumer Trust



## Distribution Channels



## Branch Transformation



The traditional retail bank is at an inflection point. The needs and expectations of customers are changing as quickly as the competitive landscape. Customers are demanding seamless, multi-channel sales and service experiences and not consistently receiving them. Simultaneously, other financial institutions and non-traditional players are looking for opportunities to invade this space or to redefine it through disruptive innovation. The result is forcing banks to examine a more balanced, integrated approach to the customer experience and growth.

In this series, entitled *Reinventing Retail Banking*, the Deloitte Center for Banking Solutions looks at how banks must move beyond simply meeting their profit and growth goals to delivering more completely on the customer experience. Specifically, these articles will focus on: understanding customers needs; identifying emerging and profitable customer segments and strategies to attract them; creating the multi-channel banking experience; and refining branch layout, design and utilization to increase customer loyalty. Together, these reports provide financial institutions with a roadmap for navigating the increasingly complex challenges that new customers and market conditions are creating, as well as understanding the lessons learned from other industries that have successfully crossed the bridge to the future.

In this our first report, we address the unique values and specific strategies for targeting Generation Y as a bank customer.

## Foreword



Much has been written about Gen Y, their collective experience and evolving preferences, but there has been little real insight on what strategies banks might consider to capture and retain this new segment. While this young group (born between 1982 and 1995) consists for the most part of financial freshmen, inexperienced and burdened with student loans, their affluence and influence are growing, and with it, their financial appetite. Banks now have a unique and limited opportunity to attract these new customers and to grow their patronage.

We are pleased to present the results of the survey on Generation Y consumers, their values and preferences, and the implications for banks. We think you will find our conclusions timely and relevant, as they not only emphasize the importance of the Gen Y customer experience, but how that experience will also apply to all generations of bank consumers.

This paper is part of a series on *Reinventing Retail Banking* produced by the Deloitte Center for Banking Solutions. Together, these reports provide banks with insights to consider as they navigate the challenges that new customers and market conditions are creating, as well as benefit from the lessons learned from other industries. We hope you find this study worthwhile.

Best,

A handwritten signature in black ink, appearing to read 'Don Ogilvie', written in a cursive style.

Don Ogilvie  
Independent Chairman  
Deloitte Center for Banking Solutions

# Executive Summary

They are teenagers and twenty-somethings (born between 1982 and 1995), a group that was raised on MTV and the Internet, and came of age in the shadow of 9/11. They are the children of Baby Boomers and comprise the largest population group since them. They are distinctive – connected, practical, tech-savvy, and socially aware. They are Generation Y, the newest and, we believe, soon-to-be most important customers of banks.

The Gen Y opportunity is imminent and vital – their annual spending is expected to be \$2.45 trillion by 2015.<sup>1</sup> As the affluence, influence, and financial appetite of this demographic group grows, financial institutions need to attract its members and win them as customers for the long term. For many institutions, this will involve a fundamental rethinking of their channel, marketing, and product strategies.

In meeting these challenges, banks can benefit from the early experiences of other industries, with more practice catering to this generation. By incorporating these lessons into innovative new strategies, banks can better address the distinctive requirements of Gen Y. They may also position themselves better for serving older generations, since Gen Y's needs can overlap with these groups, particularly in areas such as technology use and environmental concern.

This study explores in detail the characteristics that distinguish Gen Y consumers, their implications, and the strategies that will be required for banks to serve them effectively. In doing so, it builds upon the experiences of banks and other retail-focused organizations. It also incorporates findings from a proprietary survey by the Deloitte Center for Banking Solutions of 1,000+ consumers, spanning four generations, which was conducted in collaboration with Harris Interactive. (See "About the Survey.")



## Why Is Gen Y Important?

Generation Y-ers have become critical consumers for banks to pursue. The importance of this group is due to several factors.

Gen Y is strong in numbers and affluence. The group has more than 75 million members, second in population only to the 80 million Baby Boomers, and boasts a collective income of approximately \$1.89 trillion.<sup>2</sup> Further, Gen Y-ers are positioned to become the wealthiest generation to date. In addition to the growing inter-family wealth transfer, their cumulative earnings are projected to increase by 85% within the next 10 years, surpassing those of their Baby-Boomer parents by as much as \$500 billion.<sup>3</sup>

They are also beginning to exert significant influence. In general, Gen Y-ers are known to have considerable say in their Baby Boomer parents' retail choices.<sup>4</sup> This phenomenon is much stronger than in previous generations and is frequently termed the "boom-boom effect," after one of Gen Y's alternate aliases: the "echo-boom" generation. It has been estimated by one study that they may influence as much as half the spending in the U.S. economy.<sup>5</sup>

Finally, Gen Y's financial appetite is growing. According to a 2007 Forrester study, 65% of online consumers between the ages of 12 and 21 own a checking account, 42% own a credit card, and more than 35% report saving for a car or post-secondary education.<sup>6</sup> Even home-ownership among the under-25 set has been increasing – from 15% in 1993 to 25% in 2006, according to the U.S. Census Bureau. It has also been estimated that one out of every three people between the ages of 18 and 28 move, get married, or change jobs yearly – all events that can require financial advice.<sup>7</sup>

As banks look to the future, Gen Y is emerging as a key customer segment to engage. To establish positive and lasting relationships with this group, banks will likely need to revisit many of their strategies – particularly along the dimensions of channels, marketing, and products. First, however, they must develop an in-depth understanding of the values that drive these consumers' needs and preferences.



# Gen Y – A Distinctive Generation

While the opportunity is clear, a strategy to target Gen Y-ers must respond to their special qualities as customers. To that end, we conducted a survey of 1,000+ adult Americans, in collaboration with Harris Interactive. (See “About the Survey.”) The survey results, combined with external evidence, uncovered the following Gen Y consumer tendencies:

- Independently Dependent<sup>8</sup>
- Practically Motivated
- Tech-Savvy
- Socially Mindful
- Financial Freshmen

Embedded in each of these characteristics are both similarities and differences between Gen Y and other age groups. Gen Y-ers are still relatively inexperienced as financial consumers, with their expectations shaped largely by existing offerings, designed to serve older generations. However these expectations are evolving and becoming increasingly more distinct.

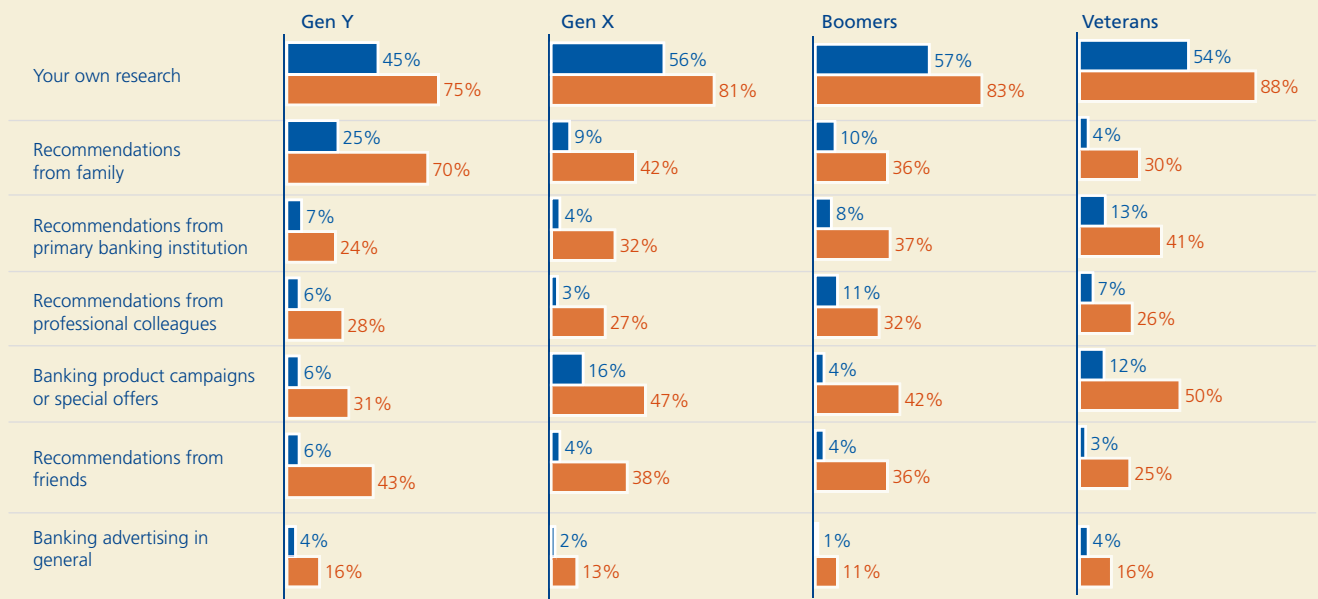
## Independently dependent

The survey found that all generations prefer to conduct their own research before making bank purchases, and value recommendations from family. Gen Y-ers, however, were more than twice as likely as other generations to report that family counsel was the most influential factor in making these choices. Even as one of their top three choices, Gen Y almost doubled the response of Gen X, the next closest age group. (See Exhibit 1.) This connectedness is further supported by their strong participation in both virtual and physical social networking venues. Younger survey respondents (Gen Y and Gen X) were much more likely than older generations to favor social networking forums to conduct research on bank offerings. (See Exhibit 2.) Other studies have found that large numbers of Gen Y-ers (roughly 42%) are members of networking web sites.<sup>9</sup>

While these tendencies provide banks with a significant marketing opportunity to reach Gen Y consumers, the survey results indicated that this group was less responsive to purchase suggestions from their primary bank, as well as to associated product campaigns and special offers. (See Exhibit 1.) Banks will likely need to modify their approach to attract and engage these new customers.

**Exhibit 1: Most influential sources in selecting banking services**

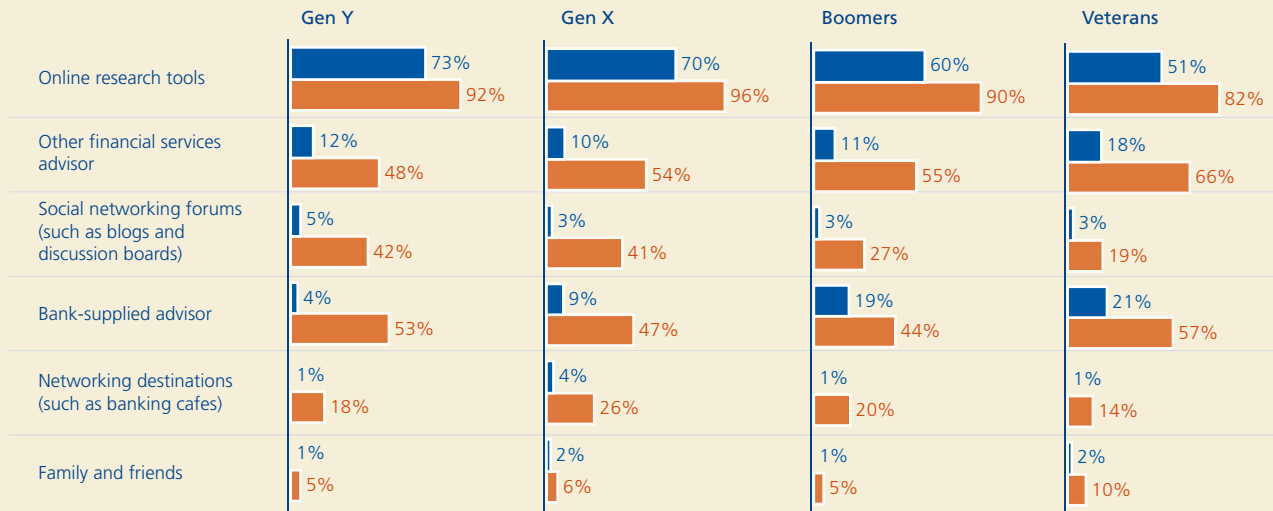
% Most Influential Factors: ■ Rank Top 1 ■ Top 1-3 Major Mentions



Source: Deloitte Center for Banking Solutions / Harris Interactive Survey

**Exhibit 2: Preferences when conducting research on banking products and services**

% Most Preferred Resource/Tool: ■ Rank Top 1 ■ Top 1-3 Major Mentions



Source: Deloitte Center for Banking Solutions / Harris Interactive Survey

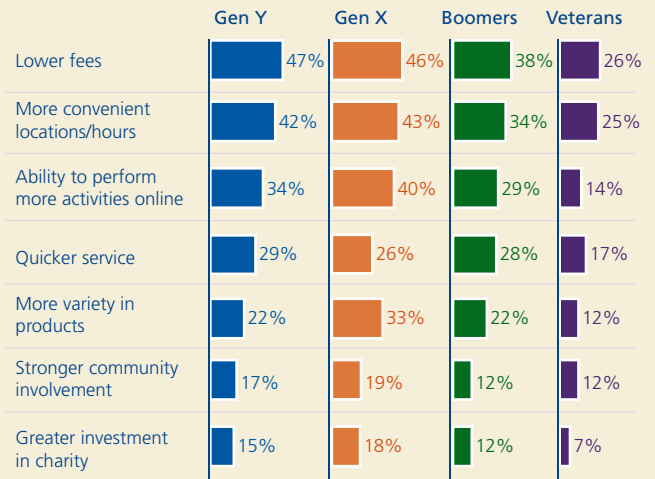
**Practically motivated**

According to our survey, younger respondents (both Gen Y and Gen X) were more likely to switch banks for lower fees, more convenient locations and banking hours, and the ability to conduct more activities online. (See Exhibit 3.) Other banking studies have found that Gen Y-ers generally prefer price over brand, and are the least likely to stick with a single brand even if they like it.<sup>10</sup>

All this serves to highlight the potential fragility of banks' Gen Y connections. Most of these existing banking relationships represent a legacy from their parents or college. As Gen Y-ers become more independent, they will likely re-assess these ties in light of their values, and act accordingly. Banks must work now to engage their existing Gen Y customers and attract new ones.

**Exhibit 3: Likelihood of changing primary banking institution, if the following were offered elsewhere**

% Total Likely (Very likely/Somewhat likely)



Source: Deloitte Center for Banking Solutions / Harris Interactive Survey

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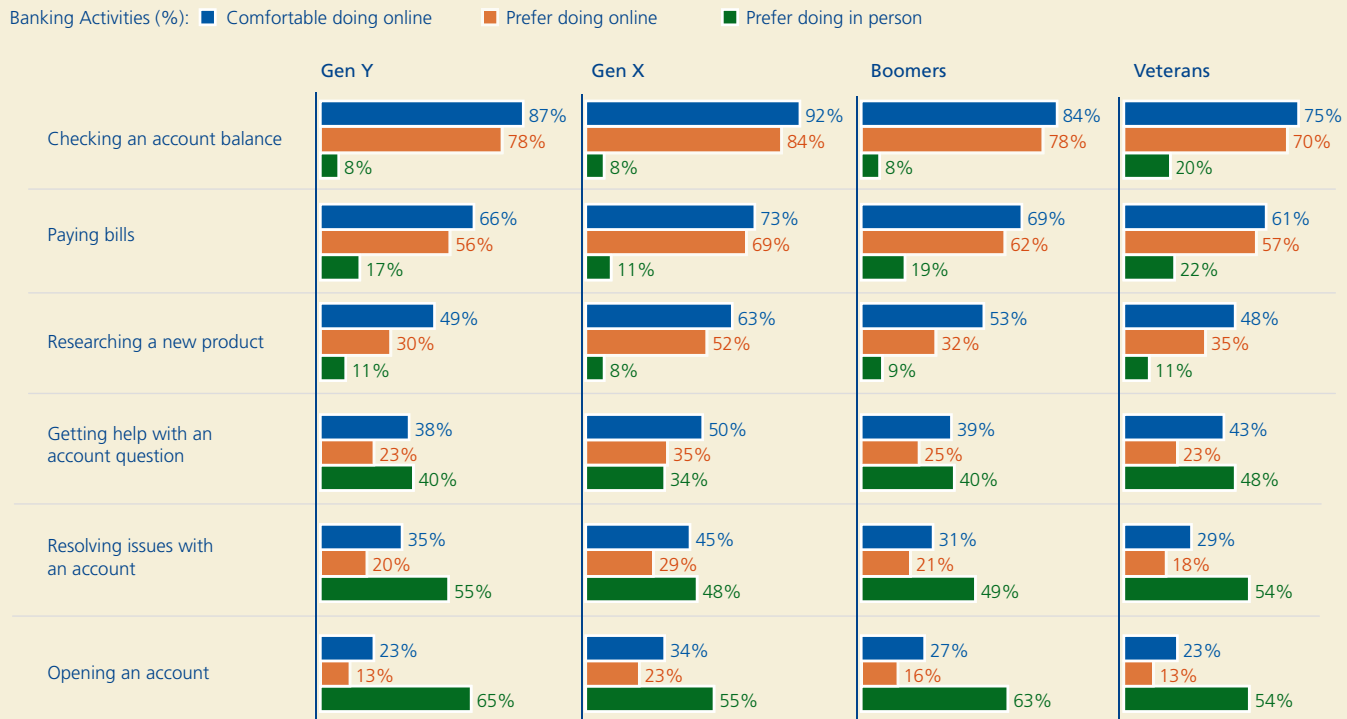
### The Implications of Gen Y Consumers for Banks

#### Tech-savvy

Gen Y has been nicknamed the “DotNet” generation, with its oldest members having come of age during the Internet bubble. While all groups surveyed valued online banking, Gen Y and Gen X were most likely to appreciate its convenience in being able to bank anywhere, not having to wait, and being offered extended hours. Other banking studies have found that Gen Y-ers have the greatest preference for the web channel. According to Forrester, Gen Y’s online banking adoption is projected to grow by 136% by 2011, outpacing overall adoption growth rates for that period by almost two and a half times.<sup>11</sup> Further supporting this tech-savvy tendency are results from Deloitte’s survey *State of the Media Democracy – Second Edition*, in which the majority of Gen Y respondents read blogs, used text messaging, and viewed their cell phones as entertainment devices.

While online channels are greatly valued, banks cannot ignore the branch. In the survey, many respondents in each generation, including Gen Y, reported they preferred in-person banking service, particularly for resolving issues and opening accounts. (See Exhibit 4.) In addition, Gen Y, along with older generations, remains concerned about data security and privacy in online banking. While the current demand for web banking may be limited by the experience of consumers to date, it seems clear that banks need to be able to serve the needs of Gen Y both online and through the branch, in a manner that is consistent and transparent.

**Exhibit 4: Banking activities online vs. in-person**



Source: Deloitte Center for Banking Solutions / Harris Interactive Survey

### Socially mindful

Gen Y has been recognized as a civic-minded generation, with a propensity to combine belief with action. This is noteworthy, particularly considering the group's youth and financial position. Gen Y-ers' active use of the Internet, and especially social networking sites, may be driving an increased awareness of corporate practices and their broader effects.

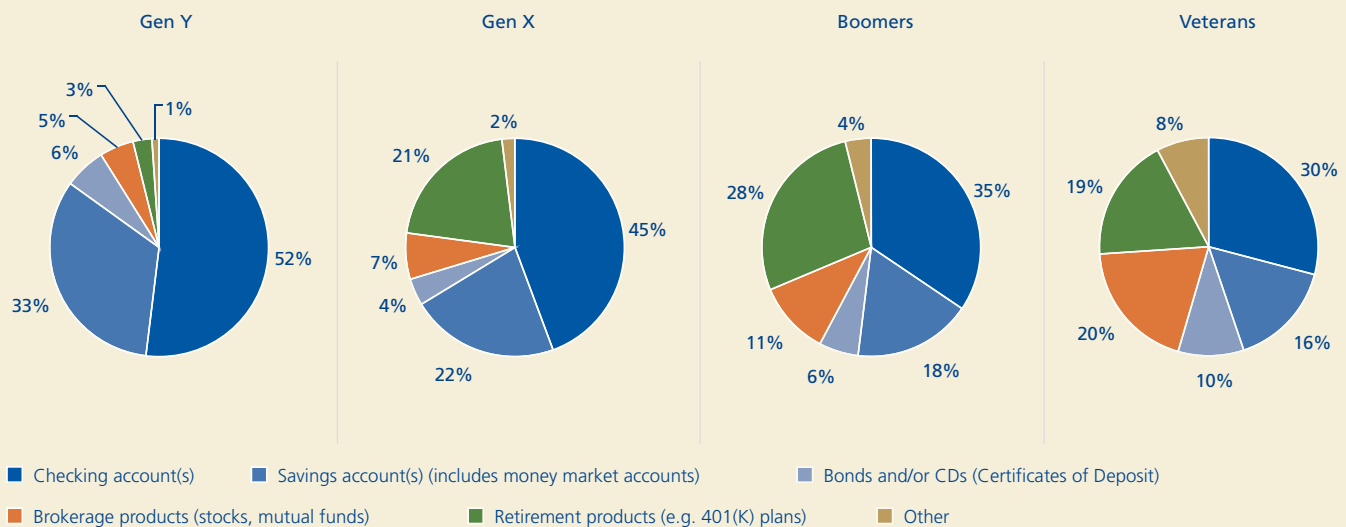
A 2007 survey by Deloitte and Opinion Research on volunteerism found that Gen Y-ers seek to have meaningful impact in their communities, with 80% having donated their time to a non-profit cause. Further, almost all respondents believed companies should implement employee volunteering programs. Other studies have revealed that the majority of Gen Y-ers consider a company's social and environmental commitment when deciding where to shop (69%) and whether to recommend its offerings (66%).<sup>12</sup> In this Deloitte survey, while not a leading factor, Gen Y and Gen X were more likely to switch banks based on their charitable investments. (See Exhibit 3.)

### Financial freshmen

Gen Y tends to be financially guarded. The survey found that Gen Y had a much more conservative asset plan allocation than did other groups. (See Exhibit 5.) This apparent risk aversion may be due to the burden of student loans or to their youth.

It is likely that Gen Y-ers have greater access to financial information than their predecessors did at similar life stages, particularly given the growth of the Internet and other sources. Yet, they appear to still need additional financial education on the options available. According to Forrester, Gen Y has voiced the highest level of discomfort, relative to other age groups, about complex bank products and services.<sup>13</sup> Another study, by Hewitt Associates, indicated that 63% of Gen Y respondents felt they did not have enough information to manage their investments. Further, from the same study, only about a third of eligible Gen Y employees said they participated in 401(K) plans, although 81% believed their retirement will be funded by savings at a later date and did not expect to rely on Social Security.<sup>14</sup> By providing simpler, clearer product information and innovative education tools, banks may be able to attract this group and grow their patronage.

Exhibit 5: Respondent asset allocations



Source: Deloitte Center for Banking Solutions / Harris Interactive Survey

## New Strategies for a New Generation

### Accepting the Gen Y challenge

Meeting the distinctive needs and preferences of Gen Y consumers will require a fundamentally new strategic approach at most financial institutions. Banks, however, have been slow to embrace the Gen Y challenge. The temptation is to look at Gen Y and say “in a few years they will be like the rest of us.” But this misses the point. Gen Y is on the leading edge of trends that are sweeping across older generations as well, such as comfort with banking online, resistance to traditional marketing, and concern for the environment. For this reason, strategies that effectively meet the needs of Gen Y will also provide benefits in serving the broader market.

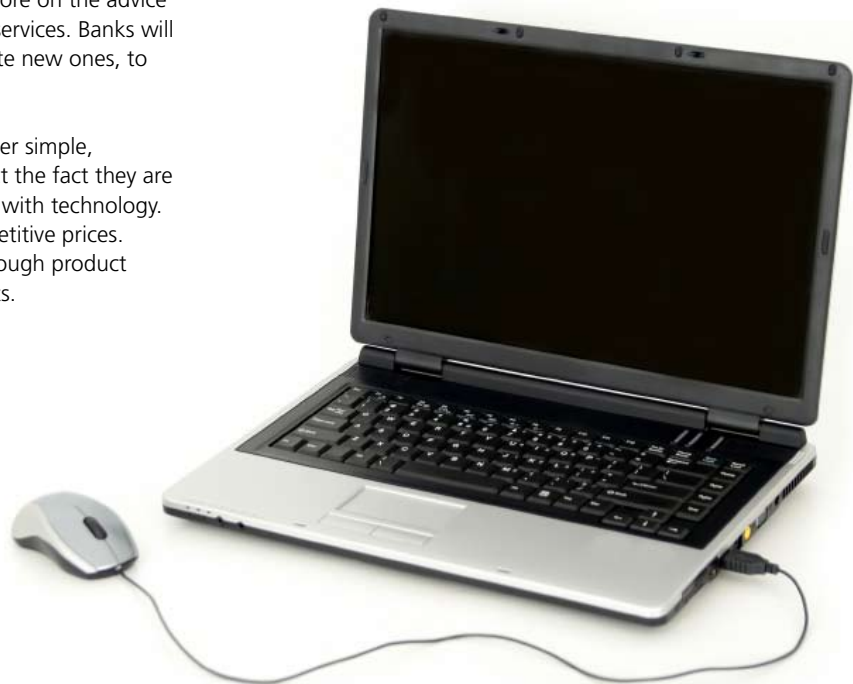
### Required: A New Mindset

There are examples of effective Gen Y strategies in financial services, but many more exist in other industries, such as retail, branded consumer, and automotive. Learning from these industries, we believe banks most need to develop new strategies in three areas:

**Channels (Integrate, don't separate)** – Gen Y-ers are comfortable with new technologies and value the ability to switch among channels based on their needs. Banks make their channels easy to navigate, provide a consistent customer experience, and integrate seamlessly to attract these tech-savvy, pragmatic consumers.

**Marketing (Educate, don't tell)** – Gen Y-ers live in an information-intensive, connected world. As financial freshmen, they need guidance on how to begin their financial lives – providing practical information can be a winning strategy to build relationships. Socially mindful, they are concerned about their communities and the greater good. They are skeptical of traditional advertising and rely far more on the advice of family and friends when purchasing products or services. Banks will need to reach out to these Gen Y networks, or create new ones, to communicate effectively with these new customers.

**Products (Simplify, don't complicate)** – They prefer simple, practical, and affordable banking services that reflect the fact they are just beginning their financial lives and their comfort with technology. Gen Y values simple and practical products at competitive prices. Socially mindful, their interest can be stimulated through product offerings that have social and environmental benefits.



# Channel Strategy: Integrate, Don't Separate

Integrated, easy-to-navigate channels work well with Gen Y consumers, who are tech-savvy, practical, and value convenience

## Bank channels – making them work separately and together

Banks are increasingly viewing their channels, both virtual and physical, as store fronts creating more of a retail experience for their customers. Bank consumers ultimately will be able to choose between the branch store, the online store, the mobile store, the alternate face-to-face store, and perhaps even the social networking store to enrich their financial shopping experience. In addition, they will be able to combine different “store” experiences within the same transaction; researching in one “store,” being educated in another, purchasing in a third, and potentially receiving the product in a fourth.

This model resonates with Gen Y-ers, who are heavy multi-channel users. Yet, banks are still far from achieving such integration with their channel strategies, which are largely dominated by the branch network. Integrated channels, such as those available through retailers like Best Buy, and LL Bean, offer the benefits of combining online channels for research and ordering, collecting items from the store or using a call center to register and order. Customers have the ability to track the progress of their order throughout the cycle. Direct mail adds a further way of reaching customers to develop their interest in new offers or services. Channels like these can be used independently or together to provide the customer with a retail experience that effectively meets their needs.

In financial services, the scenario of applying for a loan or a mortgage through online, call center, or branch channels – either separately or together – illustrates how banks can integrate channels to improve the customer experience. A bank might offer its customers mortgage services and a choice of which channels they could use to apply. Customers might use the Internet to gather information on the loan and download an application form. If it isn't possible to complete the process online, clear instructions should ease the transition to other channels. The status of their transaction could also be monitored online, allowing the bank to properly manage expectations throughout the process. From the customer's perspective, the experience would be consistent regardless of which channel is used. While this concept sounds attractive in principle, this level of channel integration is not being realized by many banks.

## Make channels more enjoyable

Banks should regard their channels as integrated, relationship-focused venues, designed to enrich the customer experience, rather than as independent vehicles intended to facilitate transaction processing. This goal reflects a classic retail approach designed to build a relationship with the customer from which a sale and, just as importantly, future sales will occur. This can be accomplished by leveraging Gen Y's interest in technology, community, and socially mindful themes and issues.

ING Direct is well known for its easy-to-navigate online banking platform, which received in 2006 American Banker's Innovator of the Year Award.<sup>15</sup> To enrich the customer experience, ING created a virtual world for children (Planet Orange), which provides an adventure-style education in financial services. In addition, ING opened “drop-in” cafes in Los Angeles, New York, Philadelphia, and Wilmington with facilities for networking and learning about financial services. This reinforces the concept of a branch as a social networking venue where friends and family can gather, whether or not they need to make a transaction. Gen Y-ers going to these cafes may find themselves developing a relationship with the bank in which becoming a customer is the logical next step. All these options are communicated on the ING Direct Web site.

Sharing banking channels, particularly through the convergence of retailing and banking, takes integration to another level and has the added benefit of reducing costs and extending the branch network. It can also improve the customer experience. The appeal to Gen Y lies in the opportunity for a richer interaction, coupled with the convenience of being able to do more within a single channel.

The Capital One Bank for example, opened a De Novo branch in Manhattan, which it shares with Starbucks as part of the same open plan environment. The Starbucks facility can appear as an extension of the branch or the branch as an extension of Starbucks, depending on the customer's perspective. Coffee drinkers can enjoy the Starbucks experience and watch a news report broadcast on a television screen in the adjoining branch area, or discuss a financial issue with a nearby Capital One advisor.

Alternatively, Capital One customers can execute a banking transaction and have a coffee afterwards. They can withdraw cash from the branch ATM to pay for the coffee and convert loose change into deposits at the branch's “bean counter” machine, next to the Starbucks facility. This experiment in shared channels converts the branch from being purely a place for executing transactions – to enter and leave quickly – to a place where people will linger and talk and perhaps decide to become bank customers.

## Catalysts for Change

### The Implications of Gen Y Consumers for Banks

#### Mobile banking

In the U.S., mobile banking is still struggling to gain traction, even among Gen Y. The challenge is to understand the potential customer experience that mobile technology can offer and to identify the opportunity for financial services as part of that experience. The Deloitte *State of the Media Democracy – Second Edition* discovered that Gen Y sees cell phones as entertainment devices for video gaming, music, and the Internet, as well as for socializing. Today, mobile devices increasingly create as rich an opportunity for networking and entertainment as PCs, and the generation most actively championing this trend is Gen Y. When banks consider the mobile channel, they need to think beyond replicating the PC-based online transaction experience. In Europe and Asia, where mobile banking has gained wider adoption, cell phones have moved beyond balance reporting and funds transfer, have become contact-less payment instruments for executing small transactions, such as buying train tickets.

In addition, the mobile space has become a channel for a broad range of merchandising possibilities such as video clips, games, music downloads, and professional content (including TV, movies, and news), creating additional mobile-based payment opportunities. Financial services firms should consider monetizing this space and providing the mechanism for buying mobile content using the cell phone as a portable payment device or mWallet.

#### Emerging channels

Alternative face-to-face channels are an emerging area of focus for banks and extend the concept of the personal channel beyond the branch. Their role is generally to attract more sophisticated clients, perhaps with larger wallets for financial services, than are typically members of Gen Y. This survey, however, illustrates the value placed on financial advisers by all generations, particularly Gen Y and Veterans, who are at significant turning points in their financial lives. (See Exhibit 2.) As financial freshmen, Gen Y-ers stand to benefit from financial advisers (as an alternate face-to-face channel). However, given their limited current financial assets, banks are hard pressed to generate enough revenue to warrant the resource commitment a personal financial adviser represents, at least as conventionally provided.

The challenge for banks is how to integrate a traditional high-cost, high-touch service into a low-cost, streamlined distribution process and make it viable, simple, and easy-to-use. One strategy to consider for branch deployment would be the use of interactive TVs that feature Gen Y financial specialists. Viewers could ask questions that direct the presentation to their areas of interest with directions provided for organizing a face-to-face meeting with an adviser to discuss an area in more detail.



# Direct, Branch, and Alternative Face-to-Face Channels

## Areas Where Banks can Refine their Channel Strategies

Exhibit 6: Gen Y focus areas for Channel Management		
Banking Channel	Strategies to target Gen Y	Examples
Direct	<ul style="list-style-type: none"> <li>• Ease of use and navigation, particularly across channels</li> <li>• Segmented Gen Y channels</li> <li>• Online status of transactions</li> <li>• Educational product information</li> <li>• Greater use of technology to enhance the customer experience</li> <li>• Low-cost channel for high volume, basic banking services</li> <li>• Online customer service</li> <li>• Mobile wallets</li> <li>• Mobile merchandising</li> <li>• Text messaging</li> <li>• Wide availability of ATMs</li> <li>• ATMs capable of offering services</li> <li>• ATMs with joint merchandising options</li> <li>• Development of social networking sites</li> </ul>	<ul style="list-style-type: none"> <li>• Retail models like Best Buy, and LL Bean offer interesting prototypes for banking</li> <li>• Self-service models like ING Direct</li> <li>• “Second life”-type virtual worlds where Gen Y-ers can explore financial options without risks</li> <li>• Online application capabilities for more sophisticated products such as mortgage applications</li> <li>• Mobile wallets to make small convenience purchases</li> <li>• Cross merchandising opportunities on bank Web site</li> <li>• Financial seminars, Web casts, and pod casts</li> <li>• Integrating banking services with other merchandising opportunities, such as ring tones, music downloads, and video clips</li> <li>• Prepaid cell phone airtime available through ATMs</li> <li>• High functionality ATMs in Gen Y retail sites, which are widely deployed in Europe, offering a broad range of services, not just cash</li> </ul>
Branches	<ul style="list-style-type: none"> <li>• Branches as desirable destinations</li> <li>• Physical sites close to Gen Y favored sites, e.g., campus or Gen Y retailers</li> <li>• Interactive TV for financial education</li> </ul>	<ul style="list-style-type: none"> <li>• Banks reflecting more of a retail experience with networking facilities such as bars and cafes</li> <li>• Concierge services to facilitate branch navigation</li> <li>• Branches as part of the local community</li> </ul>
Face-to-Face	<ul style="list-style-type: none"> <li>• Develop bank distribution models beyond branches</li> </ul>	<ul style="list-style-type: none"> <li>• Gen Y financial advisers on campus</li> <li>• Financial advisers accessible through social network or on-line banking sites</li> <li>• Gen Y as part of family bank visits</li> </ul>

## Marketing: Educate, Don't Tell

Banks need to reach out to Gen Y consumers, acknowledging both their separate identity and their family and peer group influences on each other. An educational approach is most effective, given their stage of life as financial freshmen and their resistance to traditional advertising.

### Outreach directly through family and friends

The concept of "outreach" is sometimes used to describe the marketing approach many firms have effectively used in marketing to Gen Y. These firms acknowledge Gen Y's rejection of traditional forms of marketing and recognize the need to develop an approach based on relationship development and educating customers through a focused customer experience that often involves sharing ideas and soliciting the Gen Y point of view.

Recognizing the large influence of Gen Y on family purchases, a major automotive company started a program in which it brings Gen Y consumers to its car clinics to get their views on colors. Similarly, major branded consumer companies have used "street teams" of young people to research Gen Y needs. In marketing to Gen Y, it is important to recognize not only their views, but also the influence of family members and peer groups in endorsing Gen Y financial and purchasing decisions.

Banks need to recognize that in reaching out to Gen Y, they are also indirectly appealing for family and peer group endorsement. One way to capture their interest may be to offer credit cards with financial advice on how to use them. Alternatively, banks may offer Gen Y card services as an extension of their parents' credit facilities, with text message alerts to their mobile phones if they are in danger of reaching their limits. This gives Gen Y an entry point into the financial system and the opportunity to learn the importance of developing and maintaining good credit scores before they assume these responsibilities independently.

Deloitte's *State of the Media Democracy – Second Edition* has found that 69% of Gen Y-ers see themselves as broadcasters of their own content and 86% as active users of blogs. To be more effective, bank marketing tactics must become more interactive in the way in which information is communicated and absorbed as well as shared, perhaps across many Gen Y communities. Building or sponsoring the development of communities is one way banks can reach Gen Y and effectively communicate with them.

The Nike Plus Runners Club is an example of a global community that facilitates the sharing of ideas about running and related issues, which reinforces the relationship between Nike and the running community. Each time a member wants to buy a pair of running shoes, the chances are high it will be a Nike pair. At the same time, the exchange with runners provides Nike with important information about customer needs and requirements that can help shape future products.

Popular social networking sites represent an important avenue for reaching out to Gen Y. Facebook, for instance, fulfills the need of Gen Y to network, but also to achieve privacy in the networks they wish to join. Discussion boards, product councils, and other networking forums create both restricted and open places for opinions to be shared or sought with peer groups on virtually any topic. Royal Bank of Canada, in particular, has leveraged social networking and sponsored students to appear on video talking about banking. (See Royal Bank of Canada Case Study.) Fostering Gen Y to share information and experience is an effective way to build brand awareness through word-of-mouth marketing.

Just as there are benefits to the new world of interactive marketing, so there are risks as well. Social networking sites abound with blogs. Banks need to understand the enormous risks to brands created by blogs. Preventing negative messages through blogs is almost impossible, but ignoring them is also not an option. By sponsoring the development of blogs, banks have an opportunity to recognize their importance and communicate their own messages to the Gen Y community. For example, having Gen Y spokespeople communicate on blogs on behalf of the bank may create an opportunity to leverage word-of-mouth marketing to a broader group.

### Adopt an educational approach

Banks can also employ educational strategies to market their offerings to Gen Y. One interesting example of tying education together with product usage can be seen at MCU Financial Center Credit Union, which issues credit cards to Gen Y-ers with instructions on how to use them. Instead of mailing the card directly to the member, it is sent to the branch. A branch representative then meets personally with each new Gen Y card holder to explain the benefits of good credit management and how maintaining a good FICO score will effect the terms of car and home loans and other financial services.

Gen Y-ers are likely to benefit particularly from debt management and savings advice. College students and recent graduates often have significant debt. Advice on pensions and investment alternatives will help them plan early for their long-term financial security. The challenge for banks is to communicate this information in a cost-effective way that resonates with Gen Y. Access to financial counselors over the phone or through online sites may help defray the costs of what might otherwise be an expensive model suited more to wealthier clients.

Another example of taking an educational approach to marketing is the virtual world experience from a large U.S. regional bank, which provides people with an opportunity to learn about financial services in a risk-free way using technology. This site allows younger consumers to enter an imaginary world by creating their own avatar with virtual adventures and virtual money, learning about finances in a fun way that has a technological appeal.

Customers of all ages can benefit from information on financial products and risks. ING, through its cafes, provides seminars on financial services, designed to educate customers about issues such as improving credit scores, protection against identity theft, and understanding the finance issues of their peer group.

### Refresh the brand

Brand equity is constantly under threat from changing customer preferences, making it an ongoing priority for banks to continually refresh their brands. To effectively reach Gen Y, brand strategies will increasingly need to reflect the values of this generation such as a commitment to community and social cause. But statements about social commitment need to be supported by concrete action if they are to be credible. The American Express Members Project represents this type of positive endorsement. Through this program, card members submit and review good-deed projects, which the company agrees to fund up to a total value of \$5 million.

Since sub-branding may also help achieve closer relationships with Gen Y-ers, banks should test separating Gen Y products from those offered to other generations. Whether this means creating separate products for Gen Y or marketing the same products in different ways, it helps create the perception that Gen Y needs have been carefully recognized, understood, and addressed. American Express, for example, has created Blue, a card targeted towards students. Blue has no annual fee, 0% APR on purchases for a period of time, and discounts on music, books, travel, and entertainment. This approach can help build a unique relationship with Gen Y.

### Build a relationship

To secure a Gen Y customer for life requires banks to focus on needs within the context of an overall relationship and a coordinate strategies to address them. This is in marked contrast to a product-based approach, and may require significant changes to bank products and operating models. Building a relationship requires developing a unique customer experience, and banks have an opportunity to differentiate themselves in this way, particularly with this emerging customer segment.

The goal of any marketing campaign is to develop long-term revenue. Retailers have recognized this for some time and are increasingly capturing information about customers not just as segments, but as individuals with clearly differentiated buying behavior. A similar challenge is facing banks today, not just with Gen Y but across their whole customer base, and banks are behind other industries in developing targeted experiences for different market segments.

### Case Study: Developing a relationship with Gen Y – The Royal Bank of Canada

The Royal Bank of Canada (RBC) has taken a holistic marketing approach to reach Gen Y consumers through its RBC Campus Connection on Facebook. The goal is not just to sell products, but also to make a connection and build an enduring relationship with this generation.

The page offers students a “p2p blog” (person-to-person blog) inviting opinions about banking services, and it pays students to appear on videos talking about banking. Students receive updates on RBC products and services and can participate in competitions and hear podcasts offering advice and assistance in managing finances.

RBC products and services are described in simple, easy-to-understand language. An RBC discussion board allows students to exchange their views on purchases made, how to save money, and budgeting more effectively, as well as allowing students to network with each other on any topic they wish.

Students also have access to credit specialists to receive advice about how to manage their credit. In one section, RBC offers a challenge, with a substantial monetary reward, to create innovative ideas for Canadian banking, while other sections offer details of the bank’s educational scholarships.

Products and services listed on the site are specifically designed to appeal to Gen Y needs, such as the eSavings high-interest product. The bank’s student Visa card provides instant access to credit while allowing students to use the card to enroll in RBC Via Talk & Save program, for long-distance calls to family and friends.

The RBC site represents a thoughtful approach to addressing Gen Y needs by providing evidence of the bank’s capabilities. It offers affordable banking services, provides credit opportunities with tools that help manage finances prudently, facilitates financial education, leverages technology, and includes the opportunity to network. Encouraging responsible debt management is a key concept in the effort to develop customers for life because students will be more valuable if they are financially successful and less encumbered by debt when they graduate.

## Product Strategy: Simplify, Don't Complicate

Given their stage of life, Gen Y consumers favor simple, affordable, high-value products, with the option to add features as their needs evolve

### Make it simple and practical

Products that are clearly aligned with Gen Y needs and presented in a clear, straightforward manner without a lot of clutter, confusion, and unnecessary detail are most likely to resonate with young consumers. Banks have an opportunity to consider how other industries have approached this challenge. The U.S. wireless industry provides such an example. In its early years, the industry had a number of challenges providing simple offerings, flexible service, and transparent pricing, while at the same time bringing technological innovation to market. The implications for banks is that even in a highly competitive industry like wireless, it is possible to offer complex capabilities in a simple and practical way that creates differentiation without sacrificing customer value.

This is evident in the strategy of ING Direct, whose low-cost Internet model has proved to be very effective in winning market share.<sup>16</sup> The bank's streamlined, easy-to-understand direct channel experience provides the opportunity to offer various products to a mass market at lower costs. Their catchphrase "no minimum, no fees, no catches" and a clearly stated interest rate posted to their Web site demonstrates product benefits without overt selling. Banks should consider emulating this approach in the development and marketing of services to Gen Y.

### Support the "greater good"

The opportunity for banks to capture Gen Y hearts and minds through their demonstrated commitment to the well being of the community and broader society is important to the overall product strategy. Products that support social improvement will resonate with Gen Y. SunTrust's program, "Seeing Beyond the Money," for example, reflects the bank's commitment to invest in community projects through lending, investment, and direct contributions. Wachovia sponsors community development projects deploying capital for affordable housing, economic revitalization, and small business enterprises. In another example, Green Funds offer attractive returns combined with a social message. Banks may want to consider rounding off transactions on credit or debit cards and contributing the small change to charitable causes.

### Enriching the overall customer experience

The challenge for banks is to take a simple product and make it distinct and exciting. Combining bank products with services and opportunities in other industries, such as retailing, wireless, or entertainment, not only recognizes their natural convergence, but also creates a much richer experience than an account or credit card might achieve by itself. Including elements of community or social interest enriches the Gen Y customer experience even more and puts the product strategy in the context of an overall relationship that extends into their later and wealthier years.

### Case Study: Rabobank and mobile banking services

Rabobank, based in the Netherlands, was one of the earliest proponents of mobile banking. Early initiatives were challenged by unclear costs and poor user experiences, characteristics that are unlikely to appeal to the Gen Y consumer. Previously, the bank had to maintain operating relationships with four different mobile carriers, making it very difficult to provide a customer friendly experience.

The bank took the unusual step of launching its own virtual network operator service, Rabo Mobiel in late 2006.<sup>17</sup> By having its own carrier, the bank was able to address many of the supply side concerns that had frustrated traction with customers. By increasing awareness, making costs simpler and more transparent and improving the user experience, the bank has nearly quadrupled mobile banking use within one year. By the end of 2007, more than 100,000 new customers had signed up for Rabo Mobiel.<sup>18</sup>

In mid 2007, Rabobank started offering mobile payments for online TV content through MiniTix- the bank's own micro-payment systems. Through this system users initiate payments by SMS or mobile Internet for on-line and TV content, (services likely to resonate with Gen Y-ers), and monetize the increasing merchandising opportunities available across the mobile web.<sup>19</sup>

In 2007, the bank began trials of mobile contactless payments and since then has been running 19 different trials including payments in a supermarket, a school, a snack bar, vending machines and cinema ticketing. This illustrates the potential for developing products under a process of controlled experimentation, an approach we recommend for Gen Y.

Rabobank is the first bank in Europe to offer mobile banking in combination with an attractive calling rate. Customers can opt for unlimited mobile internet for a set charge per month. Rabobank has targeted Gen Y-ers, hoping to differentiate itself from its competitors, with its simple to use, affordable and practical mobile banking services and an operating model that supports the product approach. However, in designing a service for Gen Y, it also has in mind the desire to attract other customers segments as well, using a Gen Y strategy to reinvent itself and thereby, increasing its market share across all generations of customers.

## Overcoming Obstacles to Achieving Results

Developing a relationship with Gen Y is not without its challenges and may require a significant up-front investment for a substantial return that will only be fully realized over the longer term. Meeting the Gen Y challenge does not always align with bank strengths, and there are some clear challenges.

**Relationship** - Given their unresponsiveness to traditional approaches, the difficulty of developing a relationship with Gen Y-ers is significant. To the extent that banks are product rather than relationship-focused, they may struggle to understand and approach this segment. Addressing the Gen Y challenge may not just be a process change for banks, but may involve a cultural shift in the way the bank engages with a key part of its customer base.

**Cost** - Given the simplicity and scale of Gen Y needs, profitability in the early stages of the customer relationship may not be great. Traditional bank product and operating models demand significant revenues from cross selling and share of wallet to be viable. A longer-term view is important to achieve financial results from a Gen Y relationship. Assessing profitability over the full life cycle of the customer relationship will also greatly increase the return on investment with other generations as well.

**Innovation** – Gen Y needs are not yet fully known. Banks need to become more proactive in testing and evolving products for the Gen Y marketplace and learn to bring new products to market more quickly. This may be most effectively achieved by a degree of controlled experimentation, an area where banks have not excelled historically. They may wish to analyze and test similar initiatives from retailers and branded consumer companies. Banks will also need to be prepared to constantly measure their efforts and adapt experiences to future innovations.

## Conclusion

The Gen Y challenge for banks is to create customers for life and to build relationships that capitalize on their influence with other generations through their broader networks and relationships. Embracing the Gen Y challenge means a commitment to embark upon a process of change within the bank. Rapidly changing technology and a large group of new consumers who expect the latest capabilities create a catalyst for change that banks cannot ignore.

An effective way to address the Gen Y opportunity is to create a customer experience that uniquely addresses their needs. Elements of the customer experience important to Gen Y include well-defined, integrated channels; marketing programs that educate and influence Gen Y networks; and products that deliver value, yet are simple and affordable. Recognition of their social commitments and interests will further resonate with Gen Y and help to build enduring relationships that will become profitable over time.

Banks face new marketing and product development challenges with each successive generation and need to respond to them accordingly. The longer banks delay in doing this, the more costly change will likely be when it finally becomes inevitable. Creating a targeted customer experience for a specific market segment is a process and discipline that can be extended to build stronger and more profitable relationships between banks and other customer segments as well.

The real value of Gen Y consumers is not just in the scale of the opportunity they represent, but in their capacity to drive change across the entire bank. These changes can deliver benefits to all generations and create more valuable franchises and channels for those banks that rise eagerly to meet the Gen Y challenge.

## About the Survey

To generate factual data on consumer needs and preferences, the Deloitte Center for Banking Solutions and Harris Interactive conducted an online survey of 1,008 U.S. adults during the spring of 2007, segmented evenly across four generations (Gen Y, Gen X, Boomers, and Veterans). (See Exhibit A.) All respondents had some type of banking relationship. Weighted targets, based on the U.S. Census, were applied to achieve representative samples by generation in terms of education, age by gender, ethnicity, region, and income.

<b>Exhibit A: Respondent profile</b>			
<b>Gender</b>		<b>U.S. Residents</b>	<b>%</b>
Male	51%	East	23%
Female	49%	Midwest	23%
<b>Generation</b>		South	32%
Gen Y (age 18-25)	25%	West	22%
Gen X (age 26-42)	25%	<b>Total Household Income</b>	<b>%</b>
Boomers (age 43-61)	25%	Less than \$50,000	32%
Veterans (age 62+)	25%	\$50,000 to \$99,000	30%
<b>Race</b>		\$100,000 or more	20%
White	75%	Decline to answer	17%
Black/African American	10%	<b>Education</b>	<b>%</b>
Hispanic	10%	HS or less	23%
Asian or Pacific Islander	1%	College/College degree	58%
Other	<1%	Grad School/Graduate degree	19%
Mixed racial background	1%		
Decline to answer	3%		

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## About the Center

The Deloitte Center for Banking Solutions provides insight and strategies to solve complex issues that affect the competitiveness of banks operating in the United States. These issues are often not resolved in day-to-day commercial transactions. They require multi-dimensional solutions from a combination of business disciplines to provide actionable strategies that will dramatically alter business performance. The Center focuses on three core themes: public policy, operational excellence, and growth.

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## Endnotes

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The Deloitte Center for Banking Solutions (the "Center"), located in New York City, is part of Deloitte LLP and was formed to further research on and develop solutions to solve complex issues that impact the competitiveness of banks operating in the US. Don Ogilvie, former president and chief executive officer of the American Bankers Association (ABA) for two decades, is the Independent Chairman of the Center.

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