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Eat, sleep, save, repeat:
Millennials, money and the opportunity for banks

Money through the eyes of the next generation

- Millennials represent a generational shift in valuable customer segments for financial institutions.
- This cohort is set to receive much of the estimated $224 billion (AUD) in inheritance that will be passed down by the previous generation every year until 2050.[1]
- The distribution of this money is significant, as a large portion of the personal savings and investments within the Australian economy will be handed over to the next generation.
- As millennials decide how to spend, save or invest this money in accordance with different preferences and priorities, money flows and competition between banks will increase.
- Banks who can see life through the eyes of millennials and shape experiences that cater to their needs and emotions stand to win market share and loyalty.

Once touted as the technologically-savvy, iPhone-using, 'me generation', millennials today are older than commonly assumed. Born 1981 to 1996, and aged between 27 and 42, this group comprises approximately 20% of the population in Australia.[2]

While there has been no shortage of commentary on millennials over the past decade, most of this content focused on millennials as a young segment.

Common portrayals of this generation in years gone by have depicted extravagant spending, a culture of 'YOLO' and an inability to attain the great Australian housing dream owing to an appetite for avocado toast.

Yet, as they continue to mature, millennials have proved these depictions to be largely incorrect, with distinct behaviours and spending habits developed in response to new macroeconomic and cultural challenges. Being on the precipice of an intergenerational wealth transfer, millennials are a critical segment to understand and win.

In this article, we examine a few of the characteristics that make millennials distinct and highlight the opportunity for banks to see the world through a millennial's viewpoint and deliver the experience accordingly.

What makes millennials distinct?

Millennials are a generation of Australians raised with great expectations.

Millennials grew up during a time of unusually high levels of prosperity, with the extended economic expansion of the 1990s fuelling an assumption that this prosperity would, by default, continue indefinitely. Filled with optimism, they studied at a higher rate than any other generation before them with 80% attaining a non-school qualification (including certificates, diplomas, degrees and postgraduate qualifications), they built-up student debts, and entered into the workforce.[3]

Yet, the passage of time has brought about a harsh realisation for many that economic conditions are not steady and the assumptions that ossified during one's formative years do not necessarily hold true.

The increased cost of owning a home and cost of living pressures mean millennials are taking longer to reach the financial maturity that comes from wealth built up in assets, investments, or cash, than previous generations.

Consider that millennials earn more on average than previous generations (in real terms, millennials aged 25-35 are now 51% better off than Gen X were at the same age, and 91% better off than Boomers at that age[4]).

Despite this, they are a long way behind previous generations in the realm of home ownership.

Baby boomers aged 25-39 years were three times more likely than millennials to own a home without a mortgage.[5]

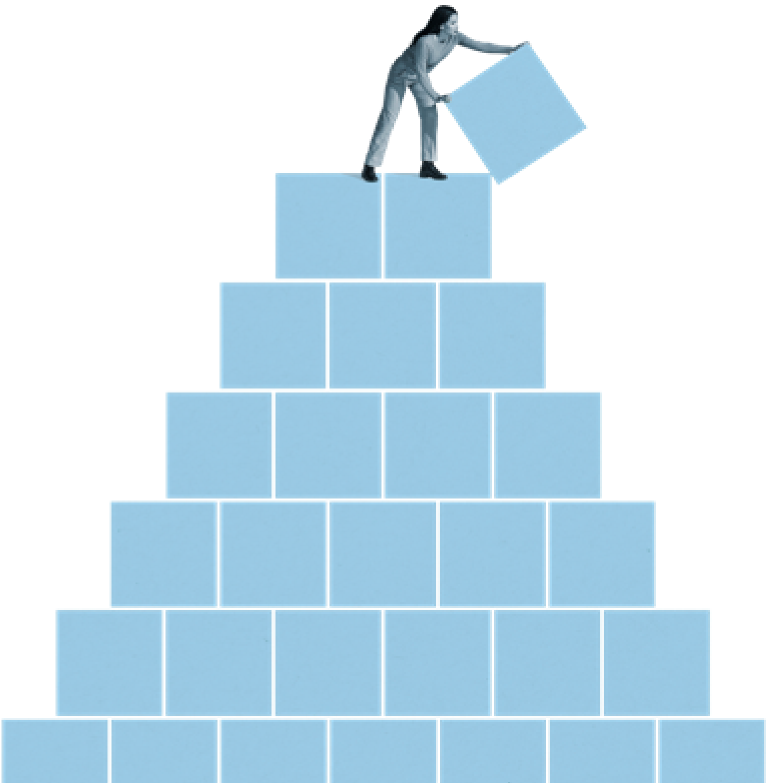
This is owing to prohibitively high house prices for many. The income required to save for a deposit means that many dwellings are out of reach for millennial singles or couples on average salaries in metropolitan areas. As a result, first home buyers are getting older, with the average age now being around 36 years old.[6]

Saving for a deposit for an average-priced home in Sydney would require

260% of an average annual wage compared with 110% in 1990.[7]

It is not just higher house prices that are making it harder for millennials to reach financial maturity.[8] **Millennials have 80% more education or HECS debt than previous generations,** a number that has grown following the inflation caused indexation at the end of FY23.

In fact, millennials are the first Australian generation likely to be financially worse off than the one that came before them.[9]



This has meant a prominent and persistent feeling of financial uncertainty is shared among millennials, as they fight a feeling of being stuck in the 'financial slow-lane'.

47% **live from pay cheque to pay cheque and are worried about being able to cover their expenses.[10]**

31% **are not confident they will have a comfortable retirement.[11]**

33% **have taken on either a part- or full-time paying job in addition to their primary job.[12]**

However, this financial anxiety appears to being driving a shift in the way millennials spend and save, as they readjust their priorities in response to contextual pressures.

Millennials are better savers than previous generations. A report found 36% of millennials save regularly, vs. 28% of older generations.

80% **of millennials use a budget vs. 67% of older generations.[13]**

They are also increasingly turning away from traditional banks to help them with this financial management.

35% **of millennials say that they need to achieve their financial goals according to a survey by Deloitte Pixel in the US. Only 33% would consider working with a bank, which appears consistent with the behaviour of Australian millennials.[14]**

They are using a wider range of budgeting tools, accessing credit in new places, such as BNPL, and are less loyal to financial institutions.

48% **of millennials have accounts with more than 1 bank, compared with 31% of baby boomers.[15]**

Where Baby boomers preferred the convenience and perceived benefits of loyalty that came from banking with a single financial institution, millennials appear to be unhindered by managing multiple accounts. They seek out and expect compatibility across financial institutions, allowing them to transfer money between accounts and utilise a range of products that enable them to create a suite of banking features personalised to their needs.

Not only do millennials appear willing to shift from traditional banking products and relationships, they are also looking for advice in new places.

Given the shift in financial maturity, the macroeconomic environment and shifting behaviours, the provision of empathetic, contextually relevant and personalised financial advice is more important than ever. Despite the ability to leverage data, analytics and generative AI, banks have been slow to provide advice to all segments.

"There is a significant opportunity to provide financial advice in an automated way, at scale," says **Dean Isreb, Deloitte Digital.** "Customers in this generation, regardless of their income level, may just prefer interacting digitally with an AI-enabled tool that understands their spending history and goals and can provide advice as well as timely nudges."

Financial institutions are going to be sharing an increasingly crowded stage for attention when it comes to advice. Beyond parents, 'finfluencers' are gaining prominence, enabled by platforms like TikTok and YouTube Shorts (see #FinTok). Building a trusted, often parasocial relationship with viewers, finfluencers share advice on everything from investing, budgeting and home ownership, and while regulatory scrutiny in this space is increasing, a combination of robust disclaimers and 'buyer beware' means that finfluencers aren't disappearing any time soon. The growth and success of this content online, may be filling an information gap left by the decline of banks providing financial advice.

The rise of the movement 'Financially Independent Retire Early' (FIRE) also offers insight into the financial frustrations and ambitions of millennials.

While the 'FIRE' movement may only represent a niche segment of millennials it's ideals offer a perspective into an interesting new approach to finance. The movement rejects the notion that income earning will steer most of one's adult life and that retirement is to be enjoyed towards the end.

The movement pushes back against traditional ideas about work, and suggests a plan of living frugally, saving intensely, and retiring in the prime of life. The interest and engagement online suggest these notions resonate with millennials (unsurprisingly) – with some FIRE related blogs having been accessed by more than 30 million unique viewers since 2011.[17]

It could be suggested that this 'gaming-style' approach to life and money, and a lack of faith that things will work out if left to chance, was born out of the macro environment millennials have come of age in.

For traditional banks, these ideals present a challenge: how do you connect with customers who are looking for control and independence, reject reliance on a bigger authority, and are more impatient than previous generations to reap the rewards of financial prudence?

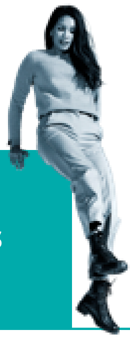
With all this in mind, perhaps millennials are not financially immature, but that financial maturity looks different on them.

Against traditional measures and compared with older generations, millennials remain financially immature.

It takes them longer to own a family home, get married and have kids.[18] It's not unlikely many will reach the age of 40 with no experience or understanding of applying for a mortgage, managing a mortgage, credit cards, credit scores and balance transfers.

But through another lens, millennials appear to be motivated, pragmatic, and intent on building the life they want with the resources available to them.

This new form of financial maturity creates some interesting provocations on how to win millennials.



Millennials are creating new life moments, between traditional life-stages

As millennials forge their own unique paths in life, traditional life stages are being redefined. By examining the moments millennials are creating in-between traditionally big stages (first home, marriage, kids), banks will uncover new needs distinct to millennials, and open-up new ways to create value for customers.

Banks who win in this space will:

Get in sync with new life moments and needs

- Provide more than solutions based on age, income, or generic personas, but needs based servicing that can be more reflective of the life moments, between big stages, millennials are creating.
- By building customer journeys around these individual timelines, banks can provide more personalised solutions that address the financial needs associated with new moments, such as managing multiple income streams, more frequent job switching, longer periods of renting and increased investment in furnishing rentals.

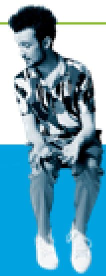
Banks have lost ground as an influencer and central trust-point for millennials

There is an appetite among millennials for financial guidance, inspiration, and motivation, in which banks currently play a minor role, as advice is accessed in new places e.g., 'finfluencers' on YouTube and TikTok. While banks to-date have typically suggested caution when taking advice from any of these sources, they may be missing an opportunity to play a more productive and active role.

Banks who win in this space will:

Become a trusted insider

- Define a clear sphere of influence amidst the deluge of financial content, and explore services that protect customers and provide complimentary advice (e.g., fact checks, warnings and endorsements).
- Closer examination of trending content and emerging movements will also provide banks with insight into the financial mindsets and tactics of millennials, identifying new features or servicing opportunities.



In pursuit of financial control millennials are always looking for new ways to manage their money

Millennials are breaking the mould when it comes to traditional finance management, opting for innovative digital solutions to manage money. With fewer opportunities to benefit from the capital appreciation of real estate or investments, savvy millennials appear to be embracing clever savings tactics, budgeting apps, and new ways to spend in pursuit of financial empowerment.

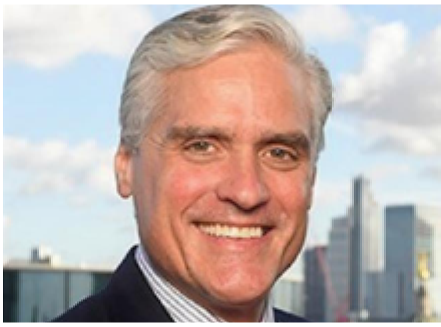
Banks who win in this space will:

Take the guess work out of financial decision-making

- Driven by a desire to build wealth and financial security millennials seek out financial institutions that can provide them with personalised tools and customisable products that take the guesswork and manual effort out of financial management.
- AI presents an exciting opportunity for banks to create personal finance managers that provide personalised and contextually relevant advice to customers at scale. With increased automation of budgeting features and sophisticated savings and spend triggers, AI-powered tools will enable customers to effortlessly manage their finances and achieve their financial goals.

Meet the team

Meredith Wheelhouse
Partner in Consulting,
Retail Banking Sector Leader
mwheelhouse@deloitte.com.au



David Myers
Partner in Consulting,
Banking & Capital Markets Sector Leader
dwmyers@deloitte.com.au

Endnotes

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