Millennials and wealth management

Trends and challenges of the new clientele

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The financial crash and the volatility of the markets have led to a state of general distrust toward financial institutions, especially among the millennials. Furthermore, this clientele imposes other requirements on wealth managers than the previous generations. The fact that millennials will be the largest client group is therefore driving many wealth managers to assess their business model as well as the way in which they interact with clients to identify which adjustments are necessary to successfully serve millennials. Early adoption will enable them to protect market share and keep their leading position. This article highlights the trends and challenges of the new clientele for the private banking industry.

Millennials are going to be the largest adult segment by the end of the decade

The population of millennials—also known as generation Y—has been constantly growing over the past years and this year it will be the largest generation ever. The term millennials is usually considered to apply to individuals who were born after 1980 and reach adulthood with the turn into the 21st century. In 2015, it is expected that 40 percent of the global adult population will be under 35 years old with strong growth rates predicted for the coming years. It comes as no surprise that Asia represents the largest proportion – nearly two-thirds of the millennials are Asian – however developed regions, such as Europe and the Americas, represent a significant proportion with more than 25 percent as well.

Whilst being the largest adult segment, millennials are also expected to grow their wealth significantly in the next years. Until 2020, the aggregated net worth of global millennials is predicted to more than double compared to 2015, with estimates ranging from US$19 to 24 trillion. Certainly most of the millennials are currently still in the phase of creating wealth, but there is going to be a massive shift in the future driven by three major trends. First of all, with an age ranging from 18 to 34 at present, millennials are about to enter their prime earning years, resulting in a meaningful increase of liquid assets. Second, being self-employed as an entrepreneur is a key role model for the millennials and this will accelerate the increase of assets. In developed countries, 54 percent of the millennials started or plan to start their own business, while 27 percent are already self-employed. Furthermore, millennials will benefit from the wealth of their baby boomer parents. Nowadays more than two-thirds of the wealth managers' clients are over the age of 60, driving the future wave of inheritance. These are a few reasons why wealth managers should start focusing on the millennials.

Millennials' behavior differs significantly compared to the previous generation

When dealing with millennials, banks are more and more challenged by the fact that this segment is demonstrating different behaviors compared to older generations. In terms of personal values, 75 percent of millennials want to stay authentic and refuse to compromise family or personal values. In addition, almost two-thirds are not only concerned with the state of the world, but also feel obliged to change something. This is reflected by the fact that millennials refuse to consider money as sole success factors and give more value to brands and employers who act socially responsible. With regard to economic conditions, millennials were highly influenced by past crises. The financial crisis, as well as the volatility of financial markets, made millennials relatively cautious and conservative in regard to financial matters. At the same time, millennials highly demand and make use of technological advances. Consequently, they consider technology and online platforms an important aspect of financial advice. 57 percent would even change their bank relationship for a better technology platform solution. All of those trends are determining the way wealth managers should interact with millennials.

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First of all, banks need to overcome the lack of trust resulting from the financial crisis. Although 72 percent of the millennials describe themselves as self-directed with direct control over their wealth, they also tend to lack financial knowledge compared to older generations. 84 percent of millennials seek financial advice clearly highlighting the fact that, despite the skepticism about advisers, the necessity for world class investment advice is still in demand. Furthermore, banks need to compensate the risk-aversion of millennials resulting in lower revenue margins. Less than 30 percent of millennials' wealth is invested in stocks and, contrary to the previous generation, they prefer physical assets as well as cash and demand simple, clear and straightforward products. The current low

interest rate period is certainly influencing this behavior; yet it is still expected to differ significantly from the previous generation. On the other hand, millennials are increasingly demanding socially responsible or even impact investments and tend to mistrust social security systems for their own retirement needs, which gives rise to a new line of product offerings.

Another trend requiring wealth managers to react is the way millennials are seeking classical investment advice. Millennials increasingly consult peers and media before acting on adviser recommendations; less than 10 percent of investment decisions are made alone. At the same time, word-of-mouth and personal recommendations significantly influence the buying decisions of about 50 percent of millennials. However, millennials still value traditional media and face-to-face meetings for advice, 82 percent would even appreciate more personal meetings with their investment adviser. This clearly highlights that the majority of millennials regard technology as an additional way to communicate and invest, but not as a substitute for personal interactions provided by a wealth manager.

Implications for wealth management firms

The different behaviors derived from the personal values of millennials implicate new challenges to wealth management firms. The need and individual characteristic of the millennials are not as yet adequately met. It is possible to differentiate three types and characteristics of millennials.

Many millennials possess a low-to-medium level of financial knowledge. For these clients, wealth management firms need to find out how strong the interest for a deep financial understanding is. If the need to get a deeper insight exists, wealth management firms are obligated to find a way to educate the client on financial terminologies and products based on the prevalent knowledge. The language, which the wealth managers use, has to be clear, simple, and understandable for the unexperienced millennials.

As a wealth manager, it is required to understand that the advice will be cross-checked with external sources, as millennials tend to not fully trust their adviser. This raises the next characteristic wealth management firms need to address: a lot of millennials have a negative perception of financial advisers.

To overcome this negative attitude, wealth management firms initially need to focus on the pricing transparency. All fees should be clear, reasonable and fair to the client. In this context, flat fees are problematic and less accepted than a performance fee. Furthermore, it is unconditionally compulsory to offer customized advice, keeping in mind unique needs. A wealth management firm must therefore also possess a certain skillset in more specific areas such as alternative investments, markets and products. As digital natives, millennials have much higher expectations to communication and transparency. This also includes social and environmental aspects.

Another characteristic of the millennials is their preference to be self-directed in their investments, assuming they do understand the financial markets and know the diverse range of products. Wealth management firms are required to offer the necessary channels for this client segment. They should get the support of the wealth manager if needed, supporting them to make their investment decisions by themselves. Products should therefore be designed in a way that resonates well with the customers' expectations, with a special focus on state-of-the-art technological platforms. Technological communication platforms need to be able to transfer information about their wealth quickly and at every point in time during the investment cycle.

It is absolutely essential, therefore, that services have a value-added function in a quality visible for the millennials. To generate this value, wealth management firms should reflect the voice of the customers in target aspects of marketing, products and operations. Failure to adapt will result in a continued mistrusting.

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New firms are leveraging digital technology to disrupt financial services

The change in client needs and the new digital technology have given new opportunities to financial institutions with innovative revenue models. There are wealth management providers that offer all their services online. The online advice and offering in algorithmic trading solutions enable cheaper alternatives to managed accounts from multichannel wealth managers. Another new business model is known as social investing. E-communities connect investors from different backgrounds around the world to online platforms where they share investment ideas, see others' portfolios and are able to copy other investors' investment strategies.

Successes of those business models can be attributed to the right understanding of client channel behavior. Whilst older generations –baby boomers and generation X– have a higher preference for more traditional channels such as personal interaction and mail, millennials have embraced newer technologies to interact with their financial institution. Digital firms manage to leverage new technologies to deliver products and services to customers by offering a seamless, liquid user-experience across multiple channels.

In 2015, over 80 percent of millennials own a smartphone with numbers steadily growing. 89 percent of those millennials check their mobile devices within the first 15 minutes of waking. Checking on social networks represents the first action in 37 percent of those cases. Leveraging this kind of interaction is at the core proposition of each new technology firm. One example is E-Toro, an e-community for forex enthusiasts which pushes new investment ideas and headlines to the mobile users in real time. A direct connection to the in-house brokerage service ensures that users are always ready to make swift investment decisions at the tip of their fingers thanks to the 24/7 connectivity of the service.

As shown in the case of e-Toro, digital firms can help to address the gaps between expectation of the next generation HNWIs and the offerings of wealth management providers. Offerings from digital firms responding to the demand of millennials vary widely and can be clustered into three main client segments (see figure 1):

1. Clients who possess low-to-medium level of financial knowledge
2. Clients who prefer to be self-directed in their investments
3. Clients who hold a negative perception of their advisers

Figure 1: Clustering of digital firms' offering in three main segments

	The novice	The loner	The cautious
	Low financial knowledge Your future investor	**Self-directed Your future enthusiast**	**Negative perception Your future referrer**
Information	• Concise information • Simplistic investment data • Social media interaction	• Detailed information • Technical investment data • Real-time access to data	• Clear information • Transparent investment data • No hidden fees or kick-backs
Services	• Virtual investment portfolio • Investment learning tutorials • Passive investment mandate	• Social investment clubs • DIY structured products • Algorithmic trading solutions	• Face-to-face consultation • Performance-based fees • “Case-by-case” pricing
Technology	• Demo trading account • Simple portfolio builder • Online investor school	• Algorithmic investment tools • Custom invest. product builder • Mobile investment solutions	• Online meeting feedback • Adviser peer comparison • Benchmark my performance

To avoid disruption, traditional wealth management firms will need to transit into the digital age. Once the decision to proceed is made, there are two possible options to consider.

First, there is the possibility to invest in the digital experience. Providing digital offerings requires building a strong fundament of capabilities such as requirements engineering, user-experience design, technical architecture, development services and digital channel marketing. Furthermore, it necessitates investing in the right infrastructure (digital platform, products, services, channels) and employing key resources to drive the implementation (software developers capable of developing and delivering modern financial technology, advisers trained in using digital, UX specialist, data engineers, financial modelling experts) to deliver a state-of-the-art digital experience to the customer.

For wealth managers who prefer to stick to their core business of offering investment services, the second option to form strategic partnerships might be a better fit. Long-established wealth managers can form partnerships with firms that can fill the gaps of knowledge, technology, and skills required in the digital environment.

Irrespective of the applied option, private banks will need to become a part of the digital wealth eco-system.

All wealth managers are facing new marketing and product development challenges from the millennials generation and need to respond accordingly. The longer wealth managers delay in doing this, the more costly the change is likely to be when it finally becomes inevitable. Furthermore, they risk losing market share to early adopters. Another value of millennial consumers is not just in the scale of the opportunity they represent, but in their capacity to drive changes 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 millennial challenge.

Recent announcements of global wealth management providers about investments in their future, such as the launch of digital programs, indicate that the industry is starting to respond to the rising demands of the millennials clientele. However, not all banks have accepted this challenge yet.