Hot topic question

The generation game
Savings for the new millennial

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Financial services providers such as life insurers, asset managers and banks are failing to connect with millennials (people born after 1980) at a time when young people need the industry more than ever. Increased longevity and reduced state and employer pension provision mean millennials will have to save more of their earnings than their parents, and do so over a longer period.

Yet, as the findings of new research from BNY Mellon and a team of undergraduates from Saïd Business School at the University of Oxford demonstrate, the techniques used by financial services providers to engage with baby boomers do not always work with millennials.

The study, entitled *"The Generation Game: Savings for the New Millennial",* looks at the saving priorities, attitudes to retirement planning and expectations around different types of financial institutions of millennials across seven key markets—Australia, Brazil, China, Japan, the Netherlands, the United Kingdom and the United States.

This geographical spread allowed the researchers to engage with a broad range of millennial populations: emerged and emerging; large and small; those with a collective approach to pensions and those with a unit-linked system; and compulsory and voluntary pension systems. The members of the research team that produced this report are all aged between 19 and 21, so it is a study of millennials by millennials. More than 1,100 millennials were surveyed.

Connecting the future to the present

Persuading people to put away money today to fund a retirement several decades away is arguably the biggest challenge faced by both pension providers and those shaping pensions policy. Research in the field of behavioural finance has demonstrated that human beings are hard-wired to prioritise a benefit they will enjoy in the near future to one in the distant future—a phenomenon known as hyperbolic discounting.

> Pension policy and marketing need to find new ways to overcome this tendency.
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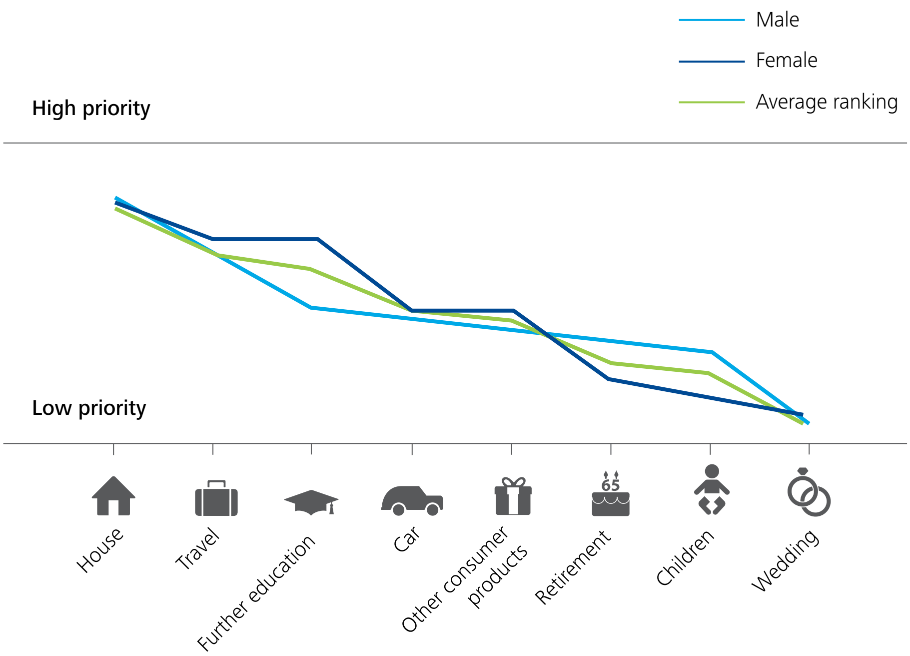
> - 73% of millennials would save more if they were rewarded in some way
> - 51% of millennials would be more inclined to save for the future if their retirement money was not completely locked away
> - 59% of millennials believe they have not seen products targeted at people like them

Our research demonstrates just how susceptible millennials are to prioritising spending today over saving for tomorrow, even when they are offered powerful incentives to tie their money up for longer. As part of our research, millennials were asked whether they preferred to receive US$50 today, US$80 in one year's time or US$200 in ten years' time in order to determine whether they were short-term thinkers or long-term planners. Just 22% of millennials would take the US$200 after ten years, rather than US$50 today (42%) or US$80 a year later (36%).

A new generation of pension products is needed, operating in conjunction with existing products, that can enable millennials to connect the present to the future. We recommend that financial services providers and policymakers investigate ways pension products can be structured to deliver limited early access to at least part of the funds held within them. For example, access could be linked to funding specific items of expenditure such as clearing student debt or a deposit for a home.

Saving for retirement is a low priority for millennials



Global challenges, local differences

Millennials in different countries approach retirement saving very differently. The extent to which millennials trust the system to deliver the sort of retirement enjoyed by their parents varies considerably from country to country, with demographic, political and economic factors likely to be key influencers of attitudes.

Millennials demonstrated significant distrust of pension schemes where investments are pooled rather than ring fenced. This suggests an opportunity for financial services providers marketing pure, unit-linked defined contribution plans to reinforce trust by emphasising the fact that savers' money is ring fenced in their plans.

Australian millennials are by far the most optimistic about being able to access the same sources of retirement income as their parents (84%), compared to only 16% in Japan. The low figure in Japan is probably because the country's retirement system is collective rather than individual. Japanese millennials contribute to a 'pay as you go' system and everyone draws their pension out of the same central pot. Unfortunately, Japanese millennials appear to doubt that the benefits they are paying for now will actually be available to them when they retire. The comparatively high figure for Australia is also driven by its retirement system, in which individuals contribute to their own pension pots, choose who manages their investments and can look at their pension statement online.

On the whole, millennials are trusting of financial services companies' ability to keep their money safe. In most countries, around a fifth to a quarter of respondents do not trust financial services providers with their money. Chinese and Dutch millennials showed a deep-rooted distrust of financial services providers. Among Chinese respondents, 44% agreed with the statement *"I don't trust financial services providers with my money"*, while 39% of Dutch respondents agreed. This may reflect the impact of fraudulent activities experienced in those countries, such as Dutch savers' losses following the collapse of Icelandic banks and a series of banking scandals in China.

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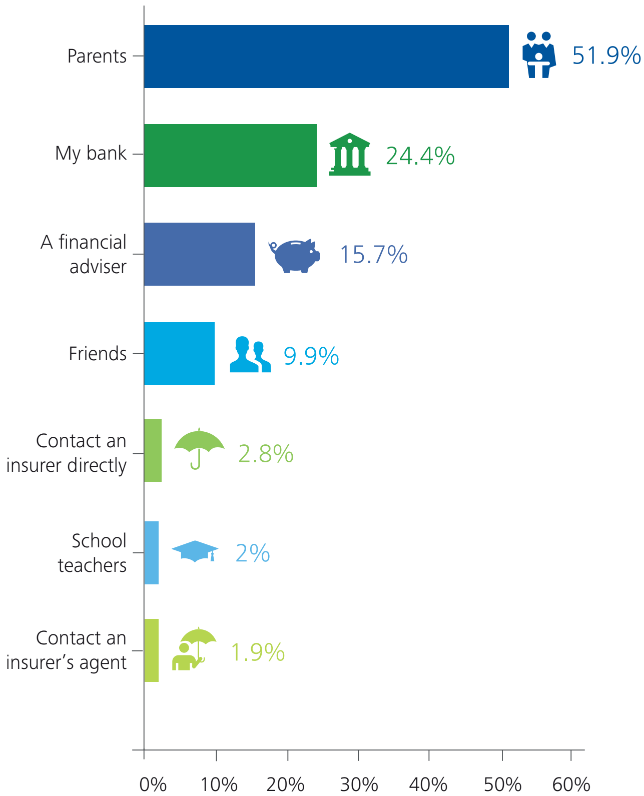
Parent power

Millennials are likely to draw on more than one source of advice before making a purchasing decision. We therefore asked them to rank seven sources of advice in order of preference so that average rankings could be calculated. Average rankings nearer to one mean sources are more popular, while rankings nearer to seven mean sources are less popular. Parents achieve the highest average ranking, with a score of 2.36, followed by banks (2.55), financial advisers (3.05) and friends (3.64). Insurers (4.75) and insurance agents (4.87) were in fifth and sixth places respectively, beating only schoolteachers, who achieve an average ranking of 6.03.

The quantitative research findings that parents are the principal influencers of millennials' financial decision-making and that financial services providers' roles are less significant are backed up by the qualitative research.

Rank these sources of financial advice, in order of which you would approach first



Telephone interviews conducted with millennials from seven countries around the world indicate that young adults turn to their parents because they perceive them as trustworthy, independent and experienced, in that they have had to make similar financial planning decisions to those faced by their children. However, interviewees from emerging markets indicated that where parents have not themselves had access to retirement products, for example where these products have not been widely available, they are perceived as a less useful source of advice.

Both the qualitative research and quantitative research indicate that millennials' engagement with financial services providers is low. Yet at the same time, millennials understand they will have to do more to provide for their retirement than their parents' generation. To enable them to achieve this, the financial services industry needs to do more to educate them on how pensions and other forms of long-term savings work, connect with them as consumers and rebuild trust following the financial crisis.

Millennials overwhelmingly turn to their parents for advice and guidance on financial planning. We cannot say, and do not know, whether their parents are equipped to advise them correctly, however, we know that half of our respondents do not understand how a pension works.

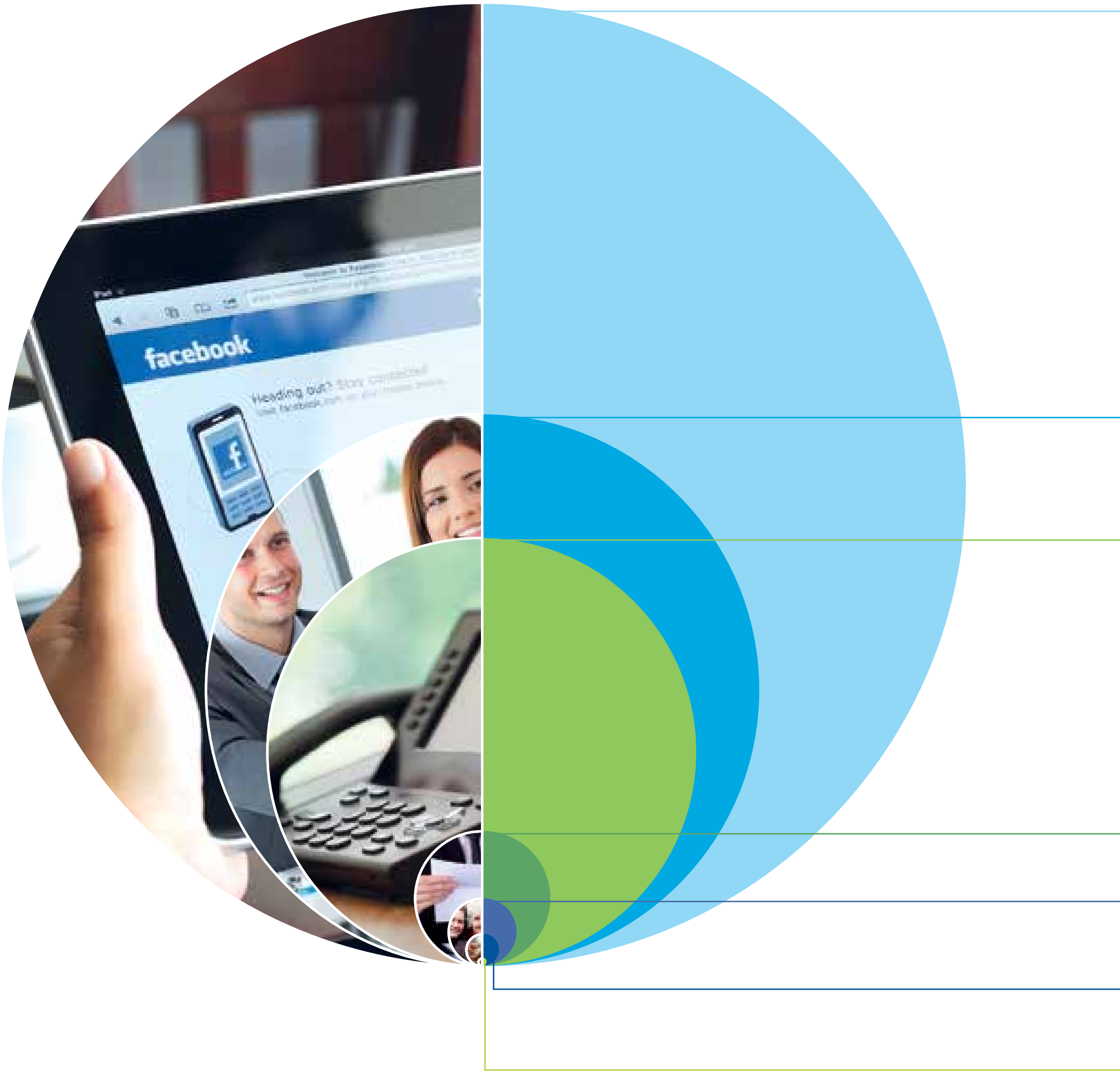
Financial services providers should leverage the strong connection millennials have with their parents in relation to financial products. Financial services providers' marketing efforts should focus on the parent/millennial dynamic and target both millennials and their parents with products created specifically to appeal to millennials.

Social media scepticism

While they are generally comfortable being targeted by consumer brands through social media, millennials do not want financial services providers using these channels to contact them. The survey data shows the proportion of millennials who want contact with financial services providers through social media is miniscule. Asked how their contact with financial services providers could be improved, less than 1% of millennials actively expressed a desire to connect through social media.

This very low appetite for communications from financial services providers through social media was also evident in the qualitative research. Quantitative data from the survey indicates millennials want to interact with providers through a range of channels, with website and email the most popular choice (40%), followed by face-to-face contact (23%) and telephone (18%). Demand among millennials for social media interaction with financial services providers on the other hand is virtually non-existent. Of 664 respondents who expressed a view, just two said they wanted to be contacted by their financial services providers through social media.

What form of contact do you want with financial services providers?



The qualitative research echoes millennials' low appetite for social media interaction with financial services providers, indicating that they largely see it as a space for interacting with peers and friends. Some explicitly stated that social media undermines the credibility of financial services institutions, and referred to their use of these channels as 'silly', 'creepy' and 'pally'. These findings suggest there is a line of familiarity that millennials do not want financial institutions to cross in their interactions with them.

Millennials interviewed in the qualitative research indicated that use of social media made financial services institutions look as though they were trying too hard, and that after the global financial crisis, they mainly want 'boring', safe and stable providers.

Millennials are also not comfortable with the idea of their personal information being used in a financial context through social media, viewing personal finance as a private matter that should stay private. While the research shows financial services providers should not regard social media as a solution to their challenge of connecting with millennials, it does not mean that providers should abandon social media altogether. Not having a social media presence at all, or having an inadequate one, can be as much of a problem for

Website/email

40%

Face to face/in branch

23%

Telephone

18%

Letter

5.4%

Parents

3%

Smartphone app

1.4%

Social media

0.03%

Policy makers need to move towards a tax-incentivised savings pot that allows for a certain number of lifetime drawdowns

a financial services provider as having too aggressive a social media presence.

On several occasions financial institutions have been criticised for an inadequate or non-existent social media response to problems experienced by customers. Done in a proportionate and sensitive manner, groups of potential and existing customers can be engaged with, as long as it is understood that social media should not be expected to lead to widespread engagement with millennials. The key for financial services providers is to signpost on Facebook and other social media sites how millennials can engage with them, as opposed to popping up uninvited in their social media living room.

An urgent need for education

Our research found that around half of millennials do not believe they know how pensions work. This number increases to 61% among those under the age of 23. Millennials in Brazil, China and the United States stand out as being most uncertain about how pensions work, while Australian millennials are the most informed.

If millennials do not understand how pensions work, financial institutions—which were clearly not prioritised as a source of advice in the research—have to embrace the role of creating a culture for financial education. We think that this initiative can and should start early. High school and college students, young workers joining the job market and many other audiences must be informed and educated about the importance of and options for saving for retirement.

Marketing messages need more impact

The findings from the qualitative research suggest millennials think current marketing strategies adopted by financial services providers fail to hit the mark. The research indicates that millennials want marketing to deliver the information they need in order to understand how they should be saving for their retirement. But they also say advertising campaigns need to be more impactful if they are to succeed. However, while millennials do not want financial institutions to connect with them through social media, they may be open to web-based solutions such as apps and games. Interviewees suggested one way financial institutions could connect with millennials is by creating apps that would be useful to them, in the same way banks create budgeting apps for students. Gaming may be another way of engaging with millennials in some countries.

When marketing themselves to millennials, financial services providers have to walk a fine line between being perceived as boring and appearing credible, reliable and solid. At the same time, they need to deliver marketing messages that are sufficiently hard-hitting to break through the media noise surrounding young adults.

Millennials interviewed as part of this survey said they thought advertising campaigns from financial services providers were bland, unchallenging and targeted at a middle-aged audience. In several of the interviews, millennials volunteered unprompted that they would engage more with marketing that gave a more frightening picture of poverty in retirement, referring specifically to government anti-smoking campaigns as an example of effective shock tactics. Without hard-hitting messages, millennials believe financial services providers' campaigns to get them to save for the long term are destined to fail.

While we understand that financial services providers may be wary of associating their brand with negative images of poverty in old age, we believe there remains scope to connect with millennials in a more impactful way, engaging them in a mature dialogue about the very real challenges they face.

To the **point**:

- Financial services providers such as life insurers, asset managers and banks are failing to connect with millennials at a time when young people need the industry more than ever
- The low level of understanding of pension systems by millennials highlights the growing need for financial education
- Insurers, asset managers and other financial services companies should identify millennials as a distinct target market. Connecting through parents was a constant theme throughout the research findings. Where financial services providers already have a relationship with parents, this could be made to trickle down to the next generation
- Financial institutions need to handle social media campaigns with care and should avoid crossing a line of familiarity that millennials will find 'creepy'
- While the shift towards short-term rewards is endemic, financial institutions need to emphasise the long-term benefits of saving and the power of compound returns. The value of commencing pension contributions early, while recognising the existence of other financial strains such as student debt, should be stressed
- In the long term, policy makers need to move towards a tax-incentivised savings pot that allows for a certain number of lifetime drawdowns

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